

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**HOUSING SECTOR SUPPORT PROGRAM
PHASE I**

(PE-0218)

LOAN PROPOSAL

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Annex III-1	Procurement plan
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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

English:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

Spanish:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

ABBREVIATIONS

BANMAT	Banco de Materiales
BFH	Bono Familiar Habitacional [Family housing subsidy]
EIA	Environmental impact assessment
ET	Entidad Técnica [Technical Entity]
IDB	Inter-American Development Bank
IFI	Intermediary financial institution
INEI	Instituto Nacional de Estadística e Informática [National Institute of Statistics and Information Technology]
MIDB	Mejoramiento Integral de Barrios [Comprehensive barrio improvement]
MIVIVIENDA	Fondo Hipotecario de Promoción de Vivienda [Housing Promotion Mortgage Fund]
MVCS	Ministry of Housing, Construction and Sanitation
NGO	Nongovernmental organization
PBP	Premio al Buen Pagador [Good Payer Reward]
PMAS	Plan de Manejo Ambiental y Social [Environmental and Social Management Plan]
PUP	Producción Urbana Primaria [urban plot development]
SUI	Sistema Unificado Informático [Unified Information System]
UBN	Unmet basic need
UCS	Unidad de Coordinación y Seguimiento [Coordination and Monitoring Unit]
VMVU	Office of the Deputy Minister for Housing and Urban Development



PERU

IDB LOANS

APPROVED AS OF MARCH 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	6,070,252	
DISBURSED	5,252,901	86.5%
UNDISBURSED BALANCE	817,351	13.5%
CANCELLATIONS	999,004	16.5%
PRINCIPAL COLLECTED	2,202,479	36.3%
APPROVED BY FUND		
ORDINARY CAPITAL	5,431,086	89.5%
FUND FOR SPECIAL OPERATIONS	418,130	6.9%
OTHER FUNDS	221,036	3.6%
OUTSTANDING DEBT BALANCE	3,050,422	
ORDINARY CAPITAL	2,956,661	96.9%
FUND FOR SPECIAL OPERATIONS	93,724	3.1%
OTHER FUNDS	38	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	532,810	8.8%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	648,094	10.7%
ENERGY	280,975	4.6%
TRANSPORTATION AND COMMUNICATIONS	1,041,447	17.2%
EDUCATION	196,566	3.2%
HEALTH AND SANITATION	315,727	5.2%
ENVIRONMENT	5,000	0.1%
URBAN DEVELOPMENT	72,372	1.2%
SOCIAL INVESTMENT AND MICROENTERPRISE	645,246	10.6%
REFORM PUBLIC SECTOR MODERNIZATION	2,045,815	33.7%
EXPORT FINANCING	176,756	2.9%
PREINVESTMENT AND OTHER	109,446	1.8%

* Net of cancellations with monetary adjustments and export financing loan collections.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Peru

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
PE0220	Institutional Support of the Congress	7.0	
* PE0216	Grana y Montero ("G&M") Partial Credit Risk Guarantee	15.0	
PE0218	Support to the Housing Sector Program	60.0	
PE0223	Strengthening and Modernization Tax System Administration	8.8	
PE0239	Competitiveness Sector Program	300.0	
PE0187	Urban Transport in Lima	45.0	
* PE0235	Road Network	19.0	
* PE0222	Camisea Project	75.0	
Total - A : 8 Projects		529.8	
* PE0238	TIM Peru	60.0	
Total - B : 1 Projects		60.0	
TOTAL 2003 : 9 Projects		589.8	

2004

Project Number	Project Name	IDB US\$ Millions	Status
PE0241	Youth Training Program	18.0	
PE0203	Science and Technology Program	25.0	
PE0234	Program of Support Services to the Rural Markets	15.0	
PE0240	Democratic Consolidation of Citizen Security	10.0	
PE0247	Human Capital Development Program	N/A	
PE0142	Sanitation Sector Devel. Support Prog.ii	50.0	
PE0251	Support Program for Forestry Concessions	2.0	
PE0236	Support to Departmental Highway Decentralization	50.0	
Total - A : 8 Projects		170.0	
PE0200	Public Investment System	10.0	
PE0246	Preschool Education Support Program	50.0	
PE0242	Public Transportation in Midium-Size Cities	40.0	
PE0209	Global Credit Prog. III	30.0	
PE0243	Disaster Prevention & Risk Management Program - Perú	5.0	
PE0250	Rural Financial Market Development	20.0	
PE0213	Urban Renewal of Downtown Lima	39.0	
PE0207	National Statistics System Strengthenin	5.0	
PE0244	Rural Electrification Program	50.0	
Total - B : 9 Projects		249.0	
TOTAL - 2004 : 17 Projects		419.0	

Total Private Sector 2003 - 2004 169.0

Total Regular Program 2003 - 2004 839.8

*** Private Sector Project**



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PERU

STATUS OF LOANS IN EXECUTION AS OF MARCH 31, 2003

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED *	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	1	100,000	82,266	82.27%
1997 - 1998	3	198,300	180,888	91.22%
1999 - 2000	4	132,408	15,464	11.68%
2001 - 2002	7	561,300	210,995	37.59%
2003	3	528,800	215,608	40.77%
TOTAL	18	\$1,520,808	\$705,221	46.37%

HOUSING SECTOR SUPPORT PROGRAM
PHASE I
(PE-0218)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Peru		
Executing agency:	Ministry of Housing, Construction and Sanitation (MVCS)		
		PHASE I	PHASE II
Amount and source:	IDB: (OC):	US\$ 60 million	US\$100 million
	Local:	<u>US\$ 15 million</u>	<u>US\$ 25 million</u>
	Total:	US\$ 75 million	US\$125 million
Terms and conditions:	Amortization period:	25 years	25 years
	Execution:	3 years	3 years
	Disbursement period:	42 months	42 months
	Interest rate:	variable	variable
	Inspection/supervision:	1%	1%
	Credit fee:	0.75%	0.75%
	Currency:	Single Currency Facility in US\$	
Multiphase approach:	The program is a multiphase operation to be carried out over six years: a first, three-year phase for US\$75 million; and a second phase, also three years, for US\$125 million. The modality has been established to meet the need for a long-term process of transformation, through the incorporation of all housing sector programs and activities into a coherent institutional framework and elimination of the barriers that inhibit private-sector supply of housing to the low-income population. Phase I of the program will launch a series of adjustments, including consolidation of the institutional reforms undertaken by Peru during the preparation phase for the proposed operation with the creation of the Ministry of Housing, Construction and Sanitation (MVCS) and programs to provide and improve housing for low-income families and reconcile them with ongoing programs. Phase II, expected to begin in 2006, will continue the sector reform and institutional strengthening process and consolidate the programs and interventions carried out under the first		

phase. This document presents the general strategy for the first two phases but only identifies and describes the phase I activities.

Objectives:

The general objective of the proposed program is to support the transformation and organization of the Peruvian housing sector and to consolidate that process in the long term through incentives for equal access to housing for the nation's various socioeconomic groups. The immediate purpose of the program is to target government resources earmarked for housing to the low-income population.

The specific objectives of phase I are to: (a) support efforts by the Peruvian authorities to achieve institutional modernization of the housing sector and target public resources for housing to the poor; (b) increase the housing supply by encouraging the private financial and construction sectors to participate in the housing sector; (c) provide incentives to create a supply of core housing for poor families through a demonstration project to upgrade State-owned land for site development; and d) improve the housing conditions of the population living in substandard urban settlements.

Description:

To achieve the expected results, the program will finance the following components:

1. **Institutional and sector development component (US\$1.9 million).** This component will finance the following activities: a) support for institutional development of the Ministry of Housing, Construction and Sanitation (MVCS); b) support for the housing sector; and c) strengthening of the housing finance market.
2. **Family housing subsidy component (BFH) (US\$50.8 million).** This component will finance approximately 21,670 subsidies primarily targeting families at socioeconomic levels D and E¹ and benefiting approximately 115,000 people. The subsidies will be given to low-income families to purchase a new home, improve their existing one or build on their own property.
3. **Urban plot development component (PUP) (US\$5.49 million).** This component will finance the development of State-owned residential-use property that is presently underutilized and located in areas where the private sector has been ineffective in low-income housing production. The properties will be developed as macrolots and then put up for bidding to private investors for development. This is a limited-

¹ Socioeconomic levels A, B, C, D and E refer to different population segments, with A representing the highest income and E the lowest.

intervention demonstration program, intended to show that it is possible to generate improved land for low-income housing and thereby create an incentive for the private sector to increase the housing supply. The program is expected to generate at least 2,270 individual land parcels, which when built up will benefit approximately 12,000 people.

4. **Comprehensive barrio improvement component (MIDB) (US\$7.87 million).** This component will initiate a comprehensive barrio improvement program by financing activities that physically and socially integrate informal areas into the formal city, through improvements in urban infrastructure and social services. The component will be executed with the direct participation of the municipios and communities involved and will benefit approximately 13,250 individuals, mainly in socioeconomic segments D and E.
5. **Program administration and monitoring component (US\$1.6 million).** This component includes the cost of the Coordination and Monitoring Unit (UCS), the cost of the teams that provide any necessary technical support to the agencies responsible for component execution, and program monitoring and outside auditing during the three-year execution period.

**The Bank's
country and
sector strategy:**

The general objective of the Bank's country strategy is sustainable poverty reduction. The specific objectives are to: (a) increase economic productivity and competitiveness; (b) promote social development and improve efficiency in social policy; and (c) create a modern, efficient State. The proposed operation, which is included in the country paper, will be directly instrumental in the achievement of these objectives.

The priorities identified in the Bank's operating policy for the sector (OP-751) include improvement of housing conditions for low-income families, greater efficiency in public spending allocated to the sector and promotion of market efficiency in the housing sector. The proposed operation is a direct response to the policy objectives.

Coordination with other official development organizations:

The Ministry of Housing, Construction and Sanitation (MVSC) is not carrying out any housing sector-related operations with multilateral organizations or bilateral agencies other than under the proposed operation.

The World Bank is presently funding the land titling program being executed by the Commission to Formalize Informal Property (COFOPRI). The proposed operation will supplement the activities financed by that program (see paragraph 1.5).

Environmental and social review:

Impact. In response to a request by the Committee on Environment and Social Impact (CESI), an environmental impact assessment (EIA) was conducted. The results corroborate experience in the region with similar programs, which have had a largely positive environmental and social impact. The negative impact is confined to the duration of the construction works and limited, temporary and easily mitigated through the application of regulations and procedures in force, supported by environmental legislation.

Social inclusion. The operation will benefit low-income groups and will specifically target single-parent families. As a result, the primary beneficiaries of the BFH will be women heads of household.

The conditions for obtaining program benefits are not expected to pose any limitation on participation by indigenous and other ethnic groups. The MIDB component is targeted to the low-income population who live in substandard urban areas where many of these groups live.

The program also presents good opportunities for participation by civil society, particularly in the BFH home improvement program, which calls for the creation of Technical Entities (ET) (see paragraph 3.9) made up of NGOs, professionals and small companies that will organize and provide technical support to subsidy recipients; and in the MIDB component, which calls for the active participation of NGOs to provide technical assistance and social organization. The participatory process is expected to enable the beneficiaries to become involved in social oversight of the program works.

Benefits:

The principal benefit of the program is that it will help consolidate the reform and modernization of the Peruvian housing sector, which the government initiated with Bank assistance during program preparation. The incentives for municipios to make investments in a targeted, coordinated, participatory manner through strategies such as the MIDB will be fundamentally beneficial, inasmuch as the practice will encourage them to adopt this more efficient system as standard practice.

The operation is expected to benefit approximately 128,000 mainly low-income individuals, who will be able to purchase a home, improve their present living conditions or improve a substandard, unhealthful home environment. Specifics of the direct and indirect benefits of the operation are described in the sections of this proposal on feasibility. Among the most noteworthy are the socioeconomic and socioenvironmental benefits discussed in paragraphs 4.9 to 4.11 and 4.12 to 4.25, respectively.

The following benefits under each component bear special mention: (a) the BFH component will provide stimulus to expand the supply of mortgage credit and encourage the private sector to build low-cost housing, which in turn will boost resource allocations to the construction sector and thereby return additional benefits (see paragraph 4.10); (b) the PUP component will demonstrate to the private sector that it is possible to produce low-cost housing under market conditions for the low-income population, and it will create an opportunity to develop environmentally sound, serviced settlements for those segments of the population that otherwise could obtain housing only through squatting or overcrowding in existing homes; and (c) the MIDB component will enable families who currently live in substandard conditions to access public utilities such as water, sanitation and drainage, along with parks, squares and social services such as day care centers and community centers. The greatest benefit of this activity stems from its nature as a targeted, coordinated public investment designed to reduce social inequalities, which will help to prevent and reduce poverty-associated risks.

Risks:

1. **Coordination of stakeholders and diversity of activities.**

The program involves multiple activities and stakeholders in both the public and private sectors, and the resulting complexity may lead to problems in program execution. The risk has been minimized in several ways, depending on the stakeholders and activities involved, as follows:

 - a. Public sector activities will be coordinated under a single head, the Ministry of Housing, Construction and Sanitation, and supported by the program's UCS, for which the staff has been identified and partially appointed. The unit staff appointments are expected to be complete before the project is initiated. A transition plan for each component has also been drawn up to ensure consistency in execution. In regard to the financial and technical capacity of the municipios to participate in the program, the latter was designed to limit the supply against the potential demand from the municipios. Moreover, since

the municipio contributions may come from their current investment budgets, support activities, particularly for training, have been included to enable them to participate.

- b. The coordination and participation of the private sector, which includes stakeholders from the financial and construction sectors and NGOs, will be achieved through ex ante stipulation of clear rules for participation and training programs tailored to each type of participant.
 - c. Problems may arise because the institutional sector reform activities under component 1 and the provision of services or direct investment under components 2, 3 and 4 are to be carried out at the same time, mainly in terms of defining roles in the program, the institutional ability to achieve the proposed objectives, and the prioritization of activities. The program has attempted to minimize this risk by phasing in the components, beginning with the BHF, which has already established MIVIVIENDA as the agency responsible for component preparation and execution, based on its qualifications for that function.
2. **Reconciliation of programs with existing activities.** One of the main objectives of the operation is to eliminate the barriers created by the existing housing programs. Implementating such changes calls for political will and major decisions, which were made during the preparation phase, are reflected in the preliminary transition plan, and will be carried out during the implementation period. One critical consideration pertains to the changes that MIVIVIENDA and BanMat are required to make. For procedural consistency, guidelines have been established for the required institutional changes, which have been mutually agreed upon and included in the aforesaid plan. Close, ongoing monitoring of the plan implementation will be needed.
 3. **Direct participation by the VMVU in execution of the PUP component.** The selection of land, execution of development works and sale of the improved land parcels are activities performed directly by the government and therefore constitute a risk for the program. The program design minimized the risk by establishing technical criteria for development property selection that were identified earlier in the program's Operating Regulations and disclosed to the public. Property selection will be carried out by the program's technical committee and an outside supervisor chosen from a short-list submitted to the Bank, or by the Deputy Minister for Housing

and Urban Development (see paragraph 3.12). Competitive bidding in accordance with Bank procedures will be required for execution and technical supervision of the works and outsourcing of the property award and sale process.

Special contractual clauses:

Conditions precedent to the first disbursement:

- a. entry into force of the Operating Regulations (see paragraph 3.23);
- b. establishment of the Coordination and Monitoring Unit (UCS) (see paragraph 3.22);
- c. MVCS strategic plan prepared, with 18- and 30-month targets (see paragraph 3.10 and 4.1); and
- d. BanMat reorganization plan prepared (see Table I-4 and paragraph 3.10).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets set forth in the Report on the Eighth General Increase in Resources (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) in accordance with the headcount criterion, approximately 70% of the direct beneficiaries have income below Peru's poverty line (see paragraph 4.12). The borrowing country will be using the 10 percentage points in additional financing (see paragraph 4.15).

Exceptions to Bank policy:

None.

Procurement:

Standard Bank procedures, as set forth in Annexes B and C to the loan contract, will be followed in the procurement of goods and services and in the award of contracts for program works. International competitive bidding will be used for goods and services in amounts equal to or greater than US\$250,000 equivalent. The following systems will be used for works: (a) for amounts over US\$3 million, international competitive bidding and (b) US\$3 million to US\$100,000, local competitive bidding acceptable to the Bank. International competitive bidding will be used for consulting services when the estimated amount of the contract is US\$200,000 or above.

I. FRAME OF REFERENCE

A. The housing sector and land development in Peru

1. Institutional framework, national housing policy and strategy

- 1.1 Peru is presently taking the first steps to modernize the State organizational structure, and some of these actions have an impact on the housing sector. The first positive outcome of the reform process was the creation of the Ministry of Housing, Construction and Sanitation (MVCS), based on the former Ministry of the Presidency—which operated in the sphere of public and social infrastructure—and the Office of the Deputy Minister for Housing and Urban Development (VMVU).
- 1.2 The creation of the MVCS in July 2002 laid the groundwork for broad-based institutional and policy change in the housing sector. Prior to this important step, there was little coordination among the various government institutions on housing and urban development policy issues. The lack of coordination constituted one of the main obstacles to greater efficiency and effectiveness in the housing sector.
- 1.3 The creation of the MVCS inherently entails the adaptation of two different organizational structures and cultures and requires reorganization of their human and material resources. The capabilities transferred to the MVCS are not in all cases well suited to its assigned functions.
- 1.4 The principal decentralized agencies and programs of the Peruvian housing sector are the Housing Promotion Mortgage Fund (MIVIVIENDA) and the Banco de Materiales (BanMat). These entities have played a key role in the sector, but they have also led to a series of distortions in the financial markets. The situation renders them unsustainable in their present form, as they are unable to create housing solutions consistent with the needs of the low-income population (see paragraph 1.18).
- 1.5 Outside the institutional framework of the housing sector, the Commission to Formalize Informal Property (COFOPRI) and the Urban Property Registry (RPU), both created in 1996, are key to the development of the sector. Under the National Plan for Urban Property Formalization, these entities have formalized some 1.5 million lots and recorded 1.1 million titles, with support from the World Bank. For low-income families with few resources or financing options, however, possession of a property title does not confer sufficient access to mortgage credit or consequently to better housing.
- 1.6 For the above reasons, the ministry is engaged in a planning process aimed at tailoring its skills to new tasks such as the design, monitoring and evaluation of housing policies. The two greatest problems the sector faces in this undertaking are the lack of reliable, regular and—most importantly—appropriate information for decision-making, and a shortage of human resources to perform such tasks. Unlike

other government agencies, however, the MVCS has an advantage with regard to human resources. Many of its current staff members were hired under service contracts that are not subject to the strict public-sector labor laws, a factor that simplifies the staff evaluation and selection process.

2. Population and housing deficit

- 1.7 The population of Peru totals approximately 26 million. From 1981 to 1993, it grew at a rate of 2.2%, but estimates for more recent years place the growth rate at 1.7%. The urban population is increasing at a rapid 2.2% annually, compared to a rural growth rate of 0.5%. The nation's urban population accounts for an estimated 73% of the total, of which 45% lives in metropolitan Lima.
- 1.8 Peru has an urban housing deficit of approximately 1.2 million dwellings, consisting of a quantitative deficit of 325,000 and a qualitative deficit of 875,000 dwellings that fall below the minimum standards for habitability. During the 1981-1993 intercensus period, the number of homes increased by an average of 110,500 per year, while the number of occupied private dwellings grew by 97,500 units per year. Of that number, less than 10% were produced by the formal sector.¹
- 1.9 Domestic connections to basic utilities are severely lacking in the Peruvian housing sector. Only 74.1% of the population—66% of urban homes—has access to the public water system, and 77.6%—95% of urban homes—has access to electricity. Under the present conditions, a large majority of the low-income population has no access to decent housing solutions. According to estimates, 41.9% of the population lives with at least one unmet basic need, e.g., physically inadequate dwellings, overcrowding, no utilities, children without access to schooling.
- 1.10 The situation has come about because most of the nation's urban population lives in substandard urban developments or shantytowns. These settlements, generally located on public land, have a strong community organization that has afforded them some progress in urban and social development. However, many basic needs remain to be met, such as completion and regularization of infrastructure, provision of basic household utilities, social services, and home expansion or consolidation. In order to prevent the continued use of spontaneous housing solutions, it is necessary to ensure that adequate land and housing are available to the low-income population in the future. Providing it would also generate significant savings for local governments in the medium and long terms (see subparagraph 4.11d).

3. Development of the housing market

- 1.11 The formal housing market principally serves the highest socioeconomic segments of the population (A and B), while the remainder of the population has few options

¹ Policy guidelines. Office of the Deputy Minister for Housing and Construction, February 2002.

for obtaining a home through that channel. Access for the middle segment (C) is limited and irregular. The lowest income segments (D and E) have no means of obtaining housing through formal mechanisms, resulting in widespread land invasion, self-help construction and home upgrades in the form of repairs or expansion. According to estimates, these methods account for 70% of Peru's housing stock.²

4. Formal housing production: public and private sectors

- 1.12 Until the mid-1990s, formal production of low-income housing was undertaken mainly by the official sector directly through the construction of housing projects and serviced lots. All of these types of housing have been characterized by lack of continuity, low quality and poor targeting of housing program beneficiaries.
- 1.13 The production of housing directly by the State is presently limited, while private-sector production serves the middle and upper income population segments. There are two principal forms of private sector involvement: (a) single-family housing construction hired by the customer directly to small construction firms, and (b) multi-family housing projects or developments built by real estate developers. The latter practice is incipient and of limited scope.
- 1.14 The nation's most active housing market is in Lima. The marketable supply of formal housing between 1999 and 2001 was approximately 5,000 units per year. In 2002, the formal supply in metropolitan Lima was characterized by the production of individual homes with an average price of US\$29,500 and average area of 81 m², and apartments averaging US\$54,000 and 95 m². The largest share of units had an average cost of US\$20,000 to US\$30,000 and accounted for 23.7% of the housing supply.³
- 1.15 The formal supply of low-income housing in the rest of the country is practically nonexistent and is one of the main reasons that it is impossible to find developed land with service connections and road accessibility—amenities that account for up to 40% of the value of a basic dwelling. The generation of improved land for low-income housing requires technology and considerable investment on large land expanses to yield economies of scale. Given the country's lack of experience with projects of this type and scale, the private sector is not prepared to assume the financial risk of such investments.

² Socioeconomic segments A, B, C, D and E refer to population quintiles, with A representing the highest income and E the lowest.

³ The housing sector analysis is based on information provided by the VMVU. Statistical data on the real estate market is scarce, however, and generally refers to metropolitan Lima where most of the development has occurred.

5. Informal housing production

- 1.16 As indicated in the preceding paragraphs, informal production has been Peru's main housing generator, and estimates indicate that 70% of the units have been built through various forms of self-help construction. The number of improvised dwellings—defined in census data as those built with lightweight materials or scrap—increased from 29,000 in 1981 to 180,000 in 1993, a factor of 6.2.

6. Demand characteristics

- 1.17 As shown in Table I-1, income varies widely by socioeconomic segment. The average monthly family income in segment A is US\$2,956, while the average for segment E is US\$126. Sixty-one percent of households have an average monthly family income below US\$200. Assuming that families with such low income could allocate no more than 20% or 25% to meet their housing needs, they would be able to pay only US\$50 to US\$32 per month. That factor places a serious limitation on the effective demand for housing in Peru.

Table I-1
Principal characteristics of socioeconomic segments in Peru, national level

Characteristics	A	B	C	D	E	Total
Number of households (thousands)	72.3	487.6	1,404.0	1,817.2	1,448.5	5,229.2
Number of households (%)	1.4	9.3	26.8	34.7	27.7	100.0
Average monthly family income (US\$)	2,956.0	680.0	289.0	199.0	126.0	307.0
Median monthly family income (US\$)	2,195.0	522.0	243.0	179.0	99.0	203.0
Home ownership (%)	80.0	76.0	75.0	68.0	66.0	71.0
Source: Apoyo, Opinión y Mercado S.A.						

7. Financing for housing: financial sector – public sector

- 1.18 A series of financial sector reforms was initiated in the early 1990s to create the necessary conditions for the development the housing finance sector. The conditions included laying the foundations for the growth of the primary and secondary mortgage market and improved access to the financial sector for the low-income population. As an outcome of this process, Negotiable Mortgage Credit Instruments (TCHN) were created to simplify mortgage negotiation and recording; rules were established for loan instruments, including mortgage bonds; the National Superintendency of Public Records (SUNARP) was modernized to improve service and reduce transaction costs; and a legal and regulatory framework was created to handle titling and other procedures.
- 1.19 These reforms led to an expansion of mortgage credit in the 1990s, generating a total of US\$1 billion in loans in 1999. Despite such progress, however, access to credit is limited to those in the middle- and high-income segments (A and B) of the

population. The average loan amount of US\$36,000 covers 80% of the total value of the dwelling, and the minimum monthly income requirement is US\$1,000. As a result, a large percentage of the population remains unable to access credit offered by the private financial sector.

1.20 The State finances housing through MIVIVIENDA and BanMat. MIVIVIENDA was created in 1998 to promote access to housing. Its resources are used exclusively for second-tier financing through an administrative trusteeship with the Development Finance Corporation (COFIDE), which places them with qualified financial intermediaries at an annual rate of 8% in dollars of the United States.⁴ The MIVIVIENDA resources come from the liquidation of the National Housing Fund (FONAVI). As of 30 September 2002, MIVIVIENDA had assets of close to US\$600 million, of which US\$75 million were mortgage loans.

1.21 MIVIVIENDA currently administers a subsidy system called Good Payer Reward (PBP) that provides up to US\$31,500 in financing for housing, excluding the land value and the general sales tax. Through this system, the borrower makes a minimum down payment of 10% of the value of the dwelling. The remaining 90% is financed through the financial system with MIVIVIENDA resources. The maximum financing term is 20 years. The PBP takes the form of a 20% discount off payment amounts for borrowers who make their monthly payments on time. The system was established in October 2000 to create incentives for reducing payment arrears and for prior savings. It also includes a risk insurance system for intermediary financial institutions (IFIs) that consists of a subordinate risk tranche of 30% of the amount of the loan, whereby MIVIVIENDA assumes the first third of the loan loss in the event of nonperformance. This incentive is designed to reduce risk aversion by IFIs entering the mortgage market for low-cost housing.

1.22 Although the PBP has achieved the goal of stimulating credit demand and home purchases, it is a regressive subsidy because it increases proportionately with the amount of the loan. The subsidy for the most expensive housing (US\$35,000) is US\$5,670, which is 1.5 times the US\$3,600 offered to low-income families (see paragraph 2.7). The risk insurance also has regressive effects, since it offers greater coverage for higher loan amounts.

Table I-2 MIVIVIENDA annual lending (in US\$)			
Year	Number of loans	Total Amount	Average Loan
1999	143	2,540,787	17,768
2000	405	7,312,352	18,055
2001	1,423	24,691,609	17,352
2002*	1,795	35,090,620	19,549
TOTAL	3,766	69,635,368	18,491
Source: MIVIVIENDA publication Exchange rate: PEN3.61 = US\$1 (*) As of August 2002			

⁴ This rate is consistent with market rates. However, the financial plan MIVIVIENDA is to submit (Table I-4) must include benchmarks for tying the rate in the future to market fluctuations.

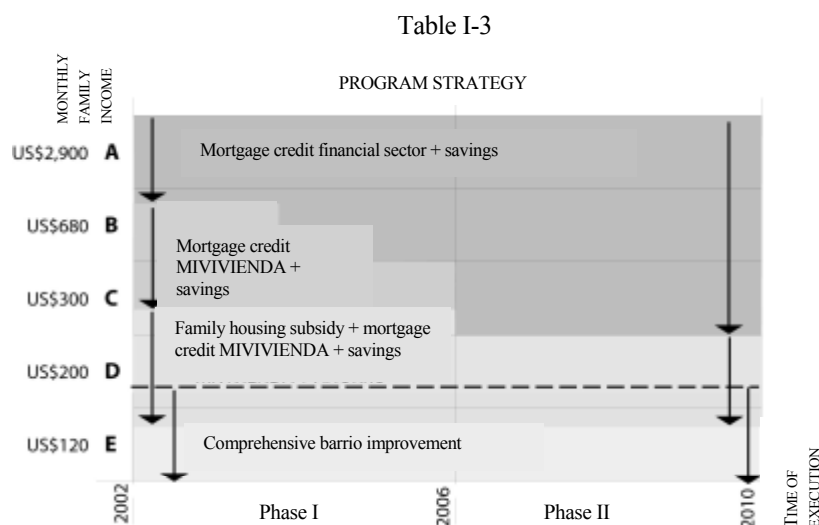
- 1.23 MIVIVIENDA has financed a total of about 3,800 buildings with average loans of US\$18,500 (see Table I-2), the equivalent of financing homes with an average value of US\$22,200, or housing for the population in socioeconomic segments B and upper C (see Table I-1).
- 1.24 BanMat is a service firm that promotes, provides and/or utilizes resources, goods and services for the construction and improvement of minimum basic housing, urban developments, productive infrastructure and services. Its principal source of funds is the Revolving Fund, which was created with contributions from the Technical Execution Unit of the National Housing Fund (UTE-FONAVI) and additional contributions from the National Construction and Building Corporation (ENACE), MIVIVIENDA and other sources. As of 31 October 2002, the fund held US\$877 million, of which US\$14.25 million was in available funds and more than US\$850 million was in accounts receivable. A study conducted by an independent firm partially valued the fund's revolving loans at US\$136 million. The average BanMat housing loan is granted for five to 10 years at an average interest in Peruvian soles of 7% for loans under US\$1,800 and 9% for higher amounts. In December 2001, the delinquency rate of the loan portfolio was over 80%. As of 31 October 2002, BanMat had US\$41 million in capital, producing cumulative losses of US\$2.6 million in the 2002 fiscal year.

B. Conclusions and challenges for the future

- 1.25 The market presently shows limited coverage in terms of the number of financing operations, production of housing units in response to demand, and service to low-income families. The situation is illustrated by international indicators that compare the Peruvian housing sector to regional figures. The accessibility indicator, which refers to the minimum value of housing offered on the market (US\$20,000) against the average annual family income (US\$3,650) is 5.5. Compared to the average index for Latin America (3.9) or other countries such as Ecuador (1.3), this indicator is unsatisfactory at its current level of 1.6 annual incomes higher than the average for Latin America, a rate that is not among the world's highest. Moreover, this class of housing is financed by MIVIVIENDA, while private sector resources finance loans for an average minimum of US\$36,000, resulting in an indicator of 10, or 6.1 times higher than the regional average.
- 1.26 This situation, combined with the housing deficit and substandard urban settlements, creates a need to eliminate the limitations imposed on the market by the official housing finance programs that inhibit the participation of private financing and construction entities in the housing sector. In the medium term, these private entities will need to begin using their own resources to serve the middle- and lower-middle-income population (C), so that public resources can be used efficiently and transparently to build housing for the lower-income D and E population segments.

C. Program strategy

- 1.27 The program presented herein is a medium- and long-range intervention. The investments in the initial phase will have a demonstration effect and will bring about a needed transition in the sector reorganization process. As one of the most important demonstration effects, public resources earmarked for housing will be drawn from MIVIVIENDA, BanMat, and the development of State-owned land and efficiently redirected to the low-income groups. The program will also create incentives for the housing production and finance sectors to provide solutions and financing to lower-income population segments than those currently being served. This goal will be achieved by targeting public resources primarily to socioeconomic segments D and E by initiating the proposed programs and adapting existing ones with a shared objective, most notably: (a) use of BanMat resources exclusively to fund IFIs or microcredit institutions to improve housing for segments D and E, and transformation of BanMat into an institution for the promotion and management of programs targeted to the low-income population nationwide; and (b) reduction of MIVIVIENDA's financing caps for housing and modification of the PBP to make it progressive. Table I-4 shows the details and phasing in of these measures for the program execution period.



- 1.28 The Bank will provide program assistance through two loans comprising US\$60 million for phase I and US\$100 million for phase II. The phase II loan will be processed once 75% of the proceeds of the first loan have been committed and 50% of the proceeds disbursed and the benchmarks agreed upon, or triggers, have been achieved. The benchmarks, described in Table I-4, pertain to achievement of: (a) the institutional reorganization agreements for the sector; and (b) the development indicators and targets defined in the program's logical framework, which are considered essential for ensuring that program activities have a positive impact. Program coverage will be nationwide.

Table I-4 Targets for first disbursement, midterm evaluation and phase II triggers			
Objective	First disbursement targets	18-month targets	30-month targets or phase II triggers
Institutional development of MVCS and VMVU- Development of a unified information system (SUI) for housing beneficiaries	MVCS strategic plan drawn up, with 18- and 30-month targets	<ul style="list-style-type: none"> -Strategic plan being implemented, midterm targets achieved -Family housing subsidy (BFH) designed and in implementation stage -Barrio and dwelling improvement programs incorporated into MVCS National Plan Information system designed and in first phase of development 	<p>Strategic plan implemented and National Housing Plan for 2006 – 2010 including sources of financing</p> <p>System developed and 100% in use</p>
Reorganization of BanMat	Reorganization plan drawn up	<ul style="list-style-type: none"> -Portfolio outsourced and recovered or cleaned up in accordance with strategic plan target -Borrowers registered and entered in SUI -Any surplus resources after fund reorganization converted into additional resources for the MIDB as a source of funding for IFIs or microcredit institutions to promote microcredit 	<ul style="list-style-type: none"> - Reorganization plan implemented and entity and organization devoted to program coordination and technical support to local governments - Resources used exclusively to fund microfinance institutions to improve housing for socioeconomic segments D and E
Refocusing of MIVIVIENDA	MVIVIVIENDA will expand coverage to socioeconomic segments C and D by implementing the BFH already initiated. Operating Regulations established for BFH component. (These conditions were met during the preparation phase of the operation.)	<ul style="list-style-type: none"> - Strategic plan formulated and implemented, including transition of Good Payer Reward -Good Payer Reward modified to be progressive - Benchmarks established for adjustment of the IFI lending rate according to market fluctuations -Risk coverage redesigned, targeted and in operation. -Standardization of loan documents and procedures agreed upon with IFIs, implementation ongoing. 	<ul style="list-style-type: none"> -Strategic plan implemented -100% of loans disbursed in last year for financing housing for segments C and D - Securitization of mortgage portfolio under way
Program increases housing supply			<ul style="list-style-type: none"> -9,100 BFHs awarded to families that purchased homes produced and financed by the private sector. -20 shantytowns improved -3 large-scale properties upgraded and being developed for housing projects -15 MIDB projects prepared for phase II - Urban plot development (PUP) component evaluated -phase I resources 75% committed and 50% disbursed.

Objective	First disbursement targets	18-month targets	30-month targets or phase II triggers
Public resources redirected to lower-income sectors		<ul style="list-style-type: none"> - Design of national housing finance system completed - Housing finance system includes reworking of existing housing programs 	<ul style="list-style-type: none"> - Housing finance system implemented - 70% of program beneficiaries below poverty line - 100% of public resources in programs targeted to population segments C, D and E - Private sector provides and finances housing solutions to population in segment C

D. The Bank's country and sector strategy, and other sector-related Bank programs

- 1.29 The general objective of the Bank's country strategy is sustainable poverty reduction. The specific objectives are to: (a) increase economic productivity and competitiveness; (b) promote social development and improve efficiency in social policy; and (c) create a modern, efficient State. The proposed operation, which is included in the country strategy with Peru, will be directly instrumental in the achievement of these objectives.
- 1.30 The priorities identified in the Bank's operating policy for the sector (OP-751) include improvement of housing conditions for low-income families, greater efficiency in public spending allocated to the sector and promotion of market efficiency in the housing sector. The proposed operation directly responds to the policy objectives. The Bank is currently beginning the execution phase of the State modernization and decentralization program (loan 1437/OC-PE), which delineates housing sector modernization activities. The proposed operation will support and finance activities for coordination between the national and subnational governments to implement the proposals and agreements generated under the modernization program. Phase II of the sanitation sector development support program (PE-0142), currently in the preparation stage, is related to this operation in its environmental institution aspects, inasmuch as the housing and sanitation sectors are under the same ministry and require coordination for their common activities. To that end, the preparation stage of the operation included appropriate consultation and coordination.

II. THE PROGRAM

A. General objective

- 2.1 The general objective of the proposed program is to support the ongoing transformation and organization of the Peruvian housing sector and to consolidate that process in the long term through incentives for equal access to housing for the nation's various socioeconomic groups. The immediate purpose of the program is to target government resources earmarked for housing to the low-income population.
- 2.2 The general objective will be met through achievement of the specific objectives to: (a) support efforts by the Peruvian authorities to achieve institutional modernization of the housing sector and redirect the sector's public resources to the poorest groups; (b) increase the housing supply by encouraging the private financial and construction sectors to participate in the housing sector; (c) provide incentives to create a supply of core housing for poor families through a demonstration project to upgrade State-owned land for site development; and (d) improve the housing conditions of the population living in substandard urban settlements.

B. Description

- 2.3 To achieve the expected results, the program will finance the following activities:

1. Institutional and sector development component (US\$1.9 million)

- 2.4 This component includes three types of activities, all of which will be carried out by the VMVU:
- a. **Support for institutional development of the ministry and the VMVU.** This component includes actions in support of institutional development that have been designed as part of the MVCS's ongoing comprehensive planning and reorganization effort, which will be embodied in the strategic plan for the sector. The program will support the strengthening of the National Offices of Housing and Urban Development, with financing for consulting services and the procurement of goods to carry out the housing component of the sector plans and to design new procedures for the VMVU. As part of the sector reform process, funding will be provided for the plan to improve and reorganize BanMat.
 - b. **Support for the housing sector.** This component includes the hiring of consulting services and the procurement of goods to: (i) design, develop, implement and operate a national urban housing information system that includes and integrates the various public housing programs and their

beneficiaries; and (ii) review technical and administrative regulations pertaining to land and building use.

- c. **Strengthening of the housing finance market.** This component will finance consulting services intended to strengthen the primary market and stimulate the secondary mortgage market, by invigorating the real estate markets. The following activities are included: (i) encourage the development of mortgage financing instruments; (ii) provide incentives to the secondary mortgage market through standardized credit procedures and documents; (iii) develop a framework for securitization of real estate assets; (iv) develop systems for accessing credit information and define the rights of mortgage recipients; (v) eliminate barriers to development of the mortgage market, correct administrative, procedural and regulatory inadequacies that raise transaction costs, and promote alternative arrangements such as out-of-court mortgage enforcement; and (vi) examine and propose home financing alternatives, such as mortgage loan insurance and microcredit, particularly for home improvement.

- 2.5 The respective action plan, budget and terms of reference for each activity are included in the program files.

2. Family housing subsidy (BFH) (US\$50.8 million)

- 2.6 This component will finance approximately 21,670 subsidies, mainly targeted at families in socioeconomic segments D and E, which will benefit approximately 115,000 individuals. The subsidy may be used to purchase a new home, improve an existing one or build on one's own property, as follows:

Table II-1 Features of the family housing subsidy						
Type of housing	Amount of subsidy (US\$)	Prior savings (US\$)	Credit (US\$)	Max. home value	Total number of subsidies	
Core housing	3,600	400	0	4,000	1,700	12%
Basic housing	3,600	800	3,600	8,000	7,400	52%
Core housing on own property	2,800	400 + property	4,800	8,000	1,840	10%
Home improvement	1,200	100	0	8,000	10,730	25%
TOTAL SUBSIDIES					21,670	

a. BFH subcomponent for new home purchase (US\$32.7 million)

- 2.7 Funding will be provided for 9,100 subsidies of US\$3,600 each for purchase of a new home worth US\$4,000 to US\$8,000. The amount of the subsidy is based on the purchasing power of the low-income population and the minimum possible supply

of housing in the market. As indicated in Table II-2, borrowing capacity and ability to purchase a home are quite limited in Peru. Families in segments D and E, representing 62% of the nation's households, can assume monthly payments of only US\$50 and US\$32, respectively, which limits their access to home purchase. It has been determined that the value of a core housing unit on the market may be as high as US\$4,000.⁵ A subsidy of US\$3,600 would enable people in segment D to purchase homes for up to US\$8,000 with a minimum contribution of 10% of the home value. Families in segments D and E who are not creditworthy could obtain housing units worth US\$4,000 to US\$5,000 with a minimum contribution of 10% of the home value through prior savings and no need for mortgage credit.

- 2.8 Two types of subsidy for new home purchases are being created: (a) a BFH for home purchases in the US\$4,000 to US\$5,000 range without credit, for which a group application is submitted with a clearly defined proposal through a community housing organization or nongovernmental organization (NGO) registered in the program as a Technical Entity (ET); these entities organize demand, negotiate and prepare the proposals and submit the applications to MIVIVIENDA, thereby ensuring system transparency; and (b) a BFH for credit-assisted purchases of homes in the US\$4,000 to US\$8,000 range, accessed by individual applications submitted through an IFI, which will review the applicant's borrowing capacity and forward the application to MIVIVIENDA, the program executing agency.

Table II-2 Borrowing capacity									
Household			Avg. gross monthly fam. inc.	Term	Monthly payment (1)	Obtainable loan (14% rate)	Purchasing power with subsidy	Personal savings 10% of home value	Home value
Segment	Thousands	%	US\$	Years	US\$	US\$	US\$	US\$	US\$
A	72.3	1.4	2956	20	887	74,867	N.A.	N.A.	N.A.
B	487.3	9.3	680	20	204	17,229	N.A.	N.A.	N.A.
C	1404.0	26.8	289	15	72	5,659	9,239	800	12839
D	1817.2	34.8	199	10	50	3,209	6,909	400	7309
E	1448.5	27.7	126	10	32	NA	3,600	400	4000
Total	5,229.3	100.0							

1/ 30% of gross monthly family income for A and B; 25% for C, D and E.

- 2.9 Applicants for a new-home BFH must meet the following minimum requirements: (a) monthly income below US\$280; (b) no current home ownership, no previous housing benefits received from the State, no delinquent debts owed to BanMat and no previous benefits from MIVIVIENDA; (c) proof of a savings account with the minimum deposit; and (d) applicants for a subsidy plus credit must submit evidence

⁵ To make this determination, VMVU and MIVIVIENDA developed model units with the private sector and examined budgets for current works, among other procedures.

of loan preapproval by a financial entity registered with the system, as well as a pre-sale commitment for the home to be purchased.

b. BFH subcomponent for home improvement or construction on self-owned property (US\$18 million)

- 2.10 This subcomponent will finance 1,840 subsidies at US\$2,800 each to build a home on the buyer's own property, and 10,730 subsidies at US\$1,200 each for improvement of an existing home. The amount of the subsidy is based on the value of a BFH-subsidized core unit for a new home.
- 2.11 Applicants for this type of subsidy must meet the following requirements: (a) monthly income below US\$280; (b) no home other than the one to be improved or the property intended for construction; (c) no prior subsidy received from or delinquent debts owed to BanMat, and no outstanding loans from MIVIVIENDA; (d) proof of a savings account with the minimum deposit; (e) submittal of documents proving ownership of the property or home to be improved and indicating the condition of the home; and (f) description of the works to be carried out and the respective budget .
- 2.12 Approximately 70% of the total resources for this component will be targeted to families whose monthly income falls below the national poverty line of US\$270,⁶ so most of the resources will benefit low-income families. A selection and weighting system will be used to ensure that the resources are properly targeted to beneficiaries according to the following criteria: (a) socioeconomic considerations based on family income, household makeup and number of dependents; and (b) economic status based on demonstrated savings capacity and ability to obtain credit in the private sector. Group applications submitted with a proposal will receive additional points, but all families in the group will be required to meet the individual qualifications. Group applications must be submitted by an ET registered with the program. If there are families with the same score and the number of available subsidies is insufficient, they will be selected by a drawing of lots.

3. Primary urban production component (PUP) (US\$5.49 million)

- 2.13 This component will finance the development of State-owned residential-use property that is presently underutilized and located in areas where the private sector has been ineffective in low-income housing production. The properties will be developed as macrolots and then put up for bidding to private investors. This is a limited-intervention demonstration component, intended to show that it is possible to generate improved land for low-income housing and thereby create incentive for the private sector to increase the housing supply. In order to stimulate the presently

⁶ Poverty line for Peru as determined by the National Institute of Statistics and Information Technology (INEI) according to the National Household Survey for the fourth quarter of 2001.

nonexistent supply in medium-sized cities, this component excludes metropolitan Lima, where the private sector has already begun to build low-cost housing. The intervention is expected to include approximately three properties. This component would yield the following totals: a total investment of US\$5.49 million; 2,270 sites developed for housing construction; 12,000 people benefited after construction; and an average investment of US\$2,350 per site for housing. The financing will also cover administrative activities such as outsourcing of the award and sale of the improved land to the private sector, feasibility studies and technical designs for the urban development projects.

- 2.14 Property to be improved with program resources is required to meet the following minimum conditions: (a) location outside risk areas or ecologically or culturally significant areas and with no environmental liabilities; (b) technically enabled for utility connection and service provision; (c) access to roads and public transportation; (d) soil conditions suitable for housing construction without any need for additional modifications that increase the cost of land improvement; (e) compliance with local and national environmental and land development regulations; (f) the properties are to be State-owned and have current valid title, and (g) potential housing demand in these areas. The properties will be rated and prioritized according to the highest number of families benefited, the cost-benefit ratio of the investment, and the degree of complementarity with other completed or ongoing urban interventions in the vicinity.
- 2.15 Through PUP, underutilized land will be upgraded for the construction of low-cost housing, thus giving the low-income population access to environmentally sound land with basic services and improvements from the time they take up residence. In other words, planning, construction and occupancy can be accomplished in the proper order, which will shorten the time that families need to attain a minimally acceptable standard of living. When improved land is unavailable, the alternative of informal settlement on an unserviced site, usually in areas that are less environmentally sound, results in a subsequent need to upgrade the occupied area, which raises development costs (see paragraph 4.11). The improved macrolots will be offered for sale through a competitive bidding process. Bidders will be required to guarantee that at least 50% of the homes they build will fall within the US\$4,000 to US\$6,000 range (see paragraph 4.13).
- 2.16 In order to trigger phase II of the program, the demonstration role of this component necessitates an assessment of the outputs, with emphasis on the targeting achieved, the final cost of the housing, and housing quality. The assessment will determine whether this activity needs to be continued in phase II.

4. Comprehensive barrio improvement (MIDB) component (US\$7.87 million)

- 2.17 This component will initiate a comprehensive barrio improvement program by financing activities that physically and socially integrate informal areas into the formal city, through improvements in urban infrastructure and social services.

Table II-3						
Subsidy per family (national gov't contribution)	Local or regional gov't contribution per family	Family contribution	Total investment per family	No. subsidies year II	No. subsidies year III	Total no. subsidies
US\$2,000	US\$250	US\$100	US\$2,350	1,000	1,500	2,500

- 2.18 Phase I is expected to finance 2,500 subsidies and benefit approximately 13,250 people, primarily those in socioeconomic segment E in municipios in the country's eight geographic regions, which have been prioritized according to the unmet basic needs index (see paragraph 3.16). The required average investment per family is US\$2,350 (see Table II-3), of which 85% will be funded from program resources and 15% will come from municipio contributions, possibly supplemented through contributions from regional governments and beneficiary communities. The program will also finance component preparation activities, including the production of guidebooks and manuals, promotional activities, technical designs, and stakeholder training.

Table II-4 Settlement selection criteria
Located in municipios prioritized by the program
Technical feasibility of utility provision certified by the municipio or the respective utilities
Demonstrated willingness of the appropriate local agencies to assume utility operation and maintenance
Located in areas without environmental risk, residentially or compatibly zoned, in compliance with municipal development regulations
Located on land publicly owned or obtained through legally acceptable private transaction
Settlement proven to have existed for more than six years
Settlement has at least 50 properties
80% of properties must be occupied
75% of the settlement households must have at least one unmet basic need (UBN)
80% of families are below the poverty line
Communities with some degree of social organization

- 2.19 Table II-4 shows the criteria according to which participants will be selected for this component by local authorities with assistance from the program's executing agency. Program resources will cover the costs of the minimum required comprehensive intervention, as follows:
- 2.20 **Infrastructure:** the works will include the provision of potable water supply, sewerage and storm drainage; construction, expansion and improvement of distribution systems and household connections;⁷ construction of local roads and connections to the city; public spaces, parks and squares; and environmental protection works and activities such as tree planting, soil stabilization and natural protection of channels. The cost of social and recreational facilities such as community centers, day care centers and sports fields is also included.
- 2.21 **Social and community development:** Includes organization, mobilization and strengthening of communities and local governments to identify and design projects; training for project monitoring; training in the use and maintenance of program-generated infrastructure; environmental protection and care; refuse collection; social monitoring of projects during the preparation and execution phase of the works and subsequent maintenance.
- 2.22 In all cases, the specific slate of works will be chosen through a community participation process. When buildings require title regularization, the work will be coordinated with the VMVU's administrative unit responsible for such procedures. The first phase will include a demonstration program with limited coverage that will be expanded nationwide in phase II. This component will begin during the second year of the operation in cities with a population over 20,000, which will be grouped and prioritized by geographic area (see paragraph 3.16).

5. Program administration and monitoring component (US\$1.6 million)

- 2.23 This component includes the cost of the Coordination and Monitoring Unit (UCS), the cost of the teams that provide any necessary technical support to the entities responsible for component execution, and program promotion and management. The makeup of the UCS is described in paragraph 3.21. Funds will also be provided for independent consulting services for technical and operations monitoring, and for the services of an external auditor (see paragraphs 3.33 and 3.37).

C. Costs and financing

- 2.24 The total program cost, including contributions by the municipios and the communities participating in the MIDB program, and the value of the land recovered through the sale of properties developed under the PUP component, is

⁷ Infrastructure provision for water supply and sanitation will be in compliance with: a) public utilities policies OP-708 and OP-745, and b) policies and technical criteria adopted by the sector.

estimated at US\$75 million, of which the Bank would lend US\$60 million from its Ordinary Capital. The central government would contribute US\$15 million in local counterpart funding, which includes the contributions mentioned above. Program costs are broken down in Table II-5:

Table II-5 Total project costs (thousand US\$)				
INVESTMENT CATEGORY	TOTAL			% Total
	IDB/OC	Local	Total	
1. DIRECT COSTS	57,360	8,727	66,087	88.1
1.1 Institutional development	1,600	300	1,900	2.5
1.2 Family housing subsidy	44,237	6,585	50,822	67.8
1.3 Comprehensive barrio improvement	7,000	875	7,875	10.5
1.4 Primary urban production	4,523	967	5,490	7.3
2. ADMINISTRATION	1,300	300	1,600	2.1
2.1 Executing unit	980	-	980	1.3
2.2 Monitoring	270	-	270	0.4
2.2.1 Operations monitoring	120	-	120	
2.2.2 External auditing	150	-	150	
2.3 Preparation and management expenses	50	300	350	0.4
SUBTOTAL	58,660	9,027	67,687	90.2
3. FINANCIAL COSTS	600	5,973	6,573	8.8
3.1 Interest	-	5,307	5,307	7.1
3.2 Credit fee	-	666	666	0.9
3.3 Inspection and supervision	600	-	600	0.8
4. CONTINGENCIES	740	-	740	1.0
GRAND TOTAL	60,000	15,000	75,000	100
% per source	80	20	100	

D. Terms and conditions of the Bank loan

- 2.25 Bank financing in the amount of US\$60 million will be drawn on the Ordinary Capital (OC). Table II-6 shows the terms and conditions of the loan.

Table II-6 Loan terms and conditions	
Source of funds:	Ordinary Capital
Amount:	US\$60 million
Terms:	
Amortization period:	25 years
Execution period:	3 years
Disbursement period:	42 months

Interest rate:	Variable
Inspection and supervision:	1%
Credit fee:	0.75% on undisbursed amounts
Currency:	United States dollars under the Single Currency Facility

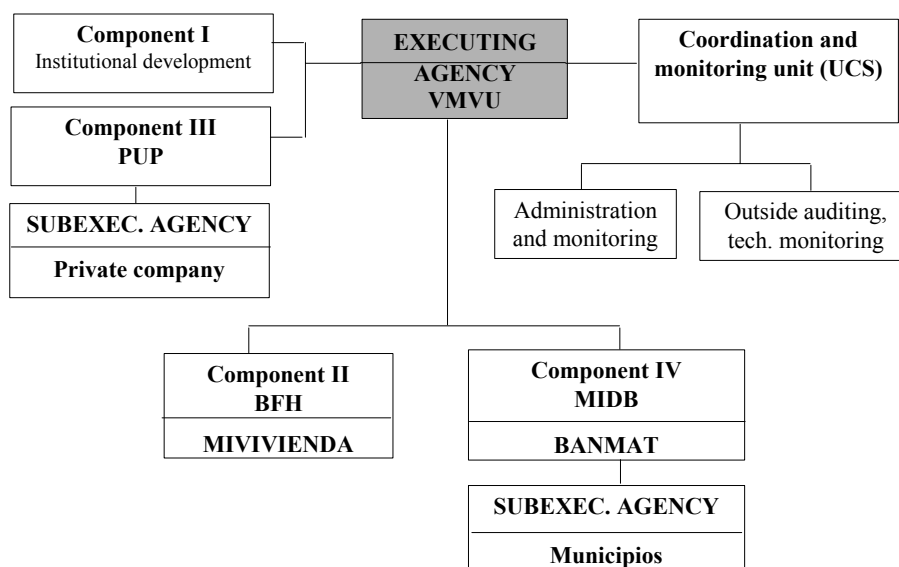
III. PROGRAM EXECUTION

A. Institutional framework

1. Borrower, guarantor and executing agency

- 3.1 The Republic of Peru will be the borrower. The Ministry of Housing, Construction and Sanitation, through the Office of the Deputy Minister for Housing and Urban Development (VMVU), will be the executing agency, which will carry out the program activities through its line agencies and decentralized entities (see Table III-1). The coordination of activities, administration and program monitoring will be carried out by the UCS, which will report to the VMVU. The makeup and functions of the UCS are described in paragraph 3.21. Independent consulting firms will provide technical and operations monitoring, and external auditing firms will audit program finances and operations. The specific functions of the UCS and of the executing units of the program components are detailed in the Operating Regulations referred to in paragraph 3.23.

Table III-1
Program executing agencies



- 3.2 The VMVU, supported by the UCS, will be the program executing agency. In accordance with the Bank, it will establish and, when necessary, adjust the basic parameters of the program to ensure consistent execution. The VMVU will be responsible for the following principal functions: (a) coordination and technical assistance for officials in charge of program execution; (b) monitoring of program target achievement; (c) financial administration and control (see paragraph 3.24);

- (d) program information and promotion; (e) monitoring of the processes of rating and selection of BFH beneficiaries, selection of properties and bidding procedures carried out under the PUP component and selection of MIDB projects submitted by the municipios; (f) maintenance of a master database for all beneficiaries of the ministry's various housing sector programs; (g) registration and training of builders of new housing on self-owned land and of ETs that participate in any program activities; (h) registration of housing projects that are potential recipients of the BFH; and (i) maintenance of supporting documentation for program operations after the UCS is dissolved upon program completion.
- 3.3 MIVIVIENDA and BanMat, supported by the UCS and in compliance with the Operating Regulations, are responsible for the following principal functions: (a) administration and control of the respective component resources; (b) program outreach to potential direct beneficiaries; (c) rating and selection of beneficiaries for their respective programs; (d) maintenance of the electronic registry of beneficiaries; (e) delivery of accounting, technical and program beneficiary information to the UCS on an ongoing basis; and (f) preparation and maintenance of records on all the information obtained, which will remain in VMVU files upon program completion.
- 2. Other participating agencies and their principal functions**
- 3.4 The program will have additional stakeholders, whose participation is essential to effective program execution. Principal among them are the following.
- 3.5 IFIs, which consist of commercial banks, rotating savings and credit associations and credit unions, will: (a) take deposits from potential beneficiaries through savings accounts required to apply for a subsidy; (b) receive information from families that apply for a subsidy for the MIVIVIENDA information system; and (c) grant mortgage credit from their own or MIVIVIENDA funds, which when pooled with beneficiary savings and the subsidy will enable beneficiaries to purchase a home. IFIs have to meet the program requirements and sign an agreement with MIVIVIENDA in order to participate.
- 3.6 The municipios will implement the BFH, thereby increasing flexibility in the requirements for low-cost housing developments, simplify the permit procedures and effect other changes to improve the land market. The municipios will act as subexecuting agencies to execute the MIDB component under BanMat, which will carry out coordination, training and monitoring. Local technical teams will enable the municipios to: (a) work with the barrio community to select settlements eligible for financing under the criteria set forth in the Operating Regulations and submit applications; (b) administer the resources for contracting studies and investment and social projects; (c) maintain a bank account in the name of the program; (d) keep the accounts; and (e) prepare technical and financial reports for ongoing and completed projects.

- 3.7 Utilities will participate in the design of the infrastructure works undertaken through the MIDB component and sign agreements with the municipality to take responsibility for service provision and subsequent maintenance of the works after delivery.
- 3.8 Private developers and/or builders will implement housing solutions, and construction firms will perform the infrastructure work under the MIDB component.
- 3.9 ETs, consisting of NGOs, associations and individual consultants, will provide housing-related paid technical assistance to the beneficiaries, support the organization of potential users of the BFH and, in some cases, serve as contractors and/or builders. They will also assist the municipios in community organization work and in needs identification and prioritization with the barrio community to prepare projects under the MIDB component. These entities must be registered with the VMVU to participate.

B. Component execution

1. Institutional and sector development

- 3.10 The General Secretariat of the MVCS will carry out institutional strengthening activities, specifically in regard to the strategic plan and the design of the MVCS organizational structure, and will report directly to the UCS. The VMVU will be responsible for the other activities. Consulting firms will be hired and goods procured for the activities to be carried out under this component. The VMVU and the General Secretariat, assisted by the UCS, will prepare the selection criteria and terms of reference to be agreed upon with the Bank to initiate the hiring of consulting firms or individual consultants, in accordance with Annex C to the loan contract. This component includes the BanMat reorganization process. The activities for BanMat and the strengthening of the MVCs will require preparation and delivery of the strategic plan for the MVCS and the BanMat restructuring plan. **These plans will be a condition precedent to the first disbursement of funds under the component.**

2. Family housing subsidy (BFH): project cycle

- 3.11 This component will be executed by MIVIVIENDA in accordance with BFH Law 27511 of August 2002. MIVIVIENDA will administer the program funds allocated to this component according to previously established eligibility requirements and conditions (see paragraphs 2.9 and 2.11). MIVIVIENDA is also responsible for the execution of the project cycle shown in Table III-2, which is described in detail in the Operating Regulations. The Bank financing for the new housing subsidy will be effective upon submittal of the public records of the sale showing ownership of the property by the subsidy recipient.

Table III-2 Principal steps in project cycles	
New home	Home improvement
1. Opening of account 2. Identification of home 3. Candidacy 4. Calls 5. Application and submittal of qualifications 6. Processing of applications 7. Publication of results 8. Issuance and delivery of subsidy	1. Opening of account 2. Contact with ET 3. Candidacy 4. Calls 5. Application and submittal of qualifications 6. Processing of applications 7. Publication of results 8. Issuance and delivery of subsidy

3. Primary urban production (PUP): project cycle

- 3.12 This component will be executed by the VMVU, which will be responsible for organizing the property selection committee. The committee consists of the program's technical committee, established by MVCS Resolution 113-2002 of October 2002, and an outside supervisor selected from a shortlist submitted to the Bank by the Deputy Minister for Housing and Urban Development. The committee will select and rate the properties to be developed in accordance with the parameters set in the program's Operating Regulations. The VMVU will also prepare the competitions and bidding procedures in accordance with Annexes B and C to the loan contract to select the entities to design and develop the selected properties. It will also outsource the award and sale of the lots improved through the aforementioned process and ensure technical supervision of the construction works and compliance with the agreements set forth in the contracts for award and sale of properties. The principle steps of the project cycle for this component are presented in Table III-3).

Table III-3 PUP cycle
1. Selection and prioritization of properties 2. Invitation to bid for design and works execution 3. Preparation of invitations to bid for sale of superblocks or macrolots 4. Promotion, award and sale of macrolots 5. Supervision of monitoring of agreements in the macrolot sale contracts 6. Sale and delivery of low-income housing

4. Comprehensive barrio improvement (MIDB): project cycle

- 3.13 BanMat technical staff will execute the MIDB component, assisted by its regional offices and local technical teams in charge of coordinating the municipal offices that participate in the program. The municipalities will act as subexecuting agencies, supported by the designated technical teams and, when necessary, appropriately trained ETs. The municipalities will be responsible for: (a) preselection of settlements eligible for financing under the criteria set forth in the Operating Regulations; (b) invitations to bid and awarding of work according to program parameters; (c) administration of resources for hiring of consultants for studies and investment and social projects, and for consulting services to provide technical support; and (d) maintenance of a program bank account, account-keeping and preparation of technical and financial reports.

**Table III-4
MIDB cycle**

1. Selection of municipios that meet criteria
2. Dissemination in selected municipios → agreement
3. Selection of barrios → socioeconomic assessment → confirmation
4. Preinvestment plan, executing unit and municipio
5. Project preparation
6. Project evaluation
7. Contracting of social monitoring
8. Bidding for works
9. Contracting – execution – supervision
10. Acceptance of works
11. Monitoring of maintenance

- 3.14 Social monitoring teams will take part in the provision and management of the social services provided for under the program. These entities or NGOs will be chosen according to criteria established in the program's Operating Regulations. The project cycle for this component will include the steps indicated in Table III-4.
- 3.15 **Selection and training.** Cities with a population of over 20,000 according to INEI data will participate in the program. One objective of this component is to obtain community participation from the outset. Since communities participate through their local governments, prior training is needed so that the local governments can be prepared to meet the requirements for bidding under the program. BanMat will therefore need to carry out the work of promotion, management and training. In order to increase efficiency and reduce costs, BanMat will group the country's geographic areas and prioritize them according to the index of unmet basic needs for households in urban areas (see Table III-5).

- 3.16 The first phase (year II) of MIDB component execution will be a learning demonstration stage. During this phase, the work will concentrate on areas in intermediate condition, i.e., the northern Sierra, metropolitan Lima, the northern coast and the southern Sierra region. The second phase (year III) will expand activity to the central Sierra, Selva, central coast and southern coast regions. Once local technical teams from the various cities have undergone training, an invitation to bid will be issued, and all such cities that meet the requirements in the program's Operating Regulations may participate. The total amount of the program resources will be distributed equally among the regions. Any resources still unused one year after their allocation will be reallocated to the best-performing regions.

Table III-5 MIDB execution priorities			
Geographic region	UBN index results	Ranking by percent	Stage of execution
Selva	20.0	21.8	Year III
Central Sierra	14.7	16.1	Year III
North Coast	11.2	12.3	Year II
North Sierra	10.7	11.6	Year II
Metro. Lima	10.4	11.4	Year II
South Sierra	9.5	10.4	Year II
Central Coast	7.6	8.3	Year III
South Coast	7.5	8.2	Year III
Total	91.6	100.0	

- 3.17 Should any applicant municipios exceed the cap on resources established in the invitation to bid, those municipios that were not selected but meet the requirements will be prequalified and given priority to replace the municipios selected that did not meet the requirements established in the program cycle, or that keep the same ranking in the next invitation to bid.
- 3.18 **Community work and preinvestment expenditures.** The participating municipios through their technical teams will begin promoting the program to the identified communities and help them prepare their participatory plan for barrio improvement, which includes involuntary resettlement. The plan content is specified in the Operating Regulations and in the priority works. The municipios will then prepare the projects agreed upon and, if necessary, hire consultants to conduct preinvestment studies using program resources or municipio contributions, which will be considered part of their commitment as municipios. The public or private utilities will need to become involved at this stage so that they can participate in technical decisions on projects and commit to service provision and subsequent maintenance.
- 3.19 **Execution.** After the barrio projects have been technically evaluated and approved, and the subsidy and local resources to finance the comprehensive improvement project are in place, the municipios will receive assistance from the executing entity to issue invitations to bid and will award contracts for the development works in accordance with program regulations. During the bidding procedures, requirements will be established for delivery of the resources to ensure program disbursements. Concurrently with the awarding of the contracts for the infrastructure and

construction works, BanMat will work with the municipio and community representatives to hire the social monitoring services for the projects.

- 3.20 **Operation and maintenance.** The project will conclude with the acceptance of the works by the respective offices or service providers, and the training so that the community can play an active part in the care and proper use of the works and facilities. If the services are to be community-run, the municipios, with BanMat assistance will carry out training, verification and delivery of the operation and initial supervision of maintenance procedures, including the preparation of technical manuals for these activities.

C. Program administration, coordination and monitoring

- 3.21 As the entity responsible for program administration, coordination and monitoring, the UCS will comprise: a general program coordinator who reports to the VMVU and is responsible for relations with the public sector and the IDB; a financial administrator; an information systems specialist who is also responsible for the progress reports; an individual responsible for private-sector relations, including the construction and financial sectors; a specialist in community development and NGOs; a planner-programmer; and an administrative assistant with experience in procurement. All of these individuals will be hired in accordance with Bank requirements. The terms of reference for the staff requires the Bank's nonobjection prior to hiring. Pursuant to rule GS-404, "Continuation of Services", at the executing agency's request, instead of competitive hiring the UCS General Coordinator may continue to perform these functions during program execution.
- 3.22 The UCS will support the VMVU in the activities described in paragraph 3.2, administer the program, hire consulting services to perform the activities, prepare the selection criteria and terms of reference to be agreed upon with the VMVU and the Bank so that contract negotiations with companies or individuals can begin. The UCS will also carry out the program's financial administration as described in paragraph 3.24, and coordinate and hire the firms that will perform the monitoring, evaluation and auditing activities described in paragraph 3.33, 3.36 and 3.37. **The UCS must be established as a condition precedent to the first disbursement.**

D. Operating Regulations

- 3.23 The program will be governed by a set of Operating Regulations comprising a principal text that includes an organization manual and operating procedures for the UCS and the executing entities, and three additional parts pertaining to each of the program investment components: (a) direct demand subsidy system, or BFH; (b) the PUP component; and (c) the MIDB. The principal content for the BFH is: (i) the program's operating framework and the criteria for eligibility and/or qualification of program participants; (ii) the eligibility system for beneficiaries; (iii) rules for subsidies, and mechanisms for registration of participating IFIs and

supporting institutions; and (iv) type and scope of intervention for ETs and for housing developers and builders. The principal elements of the Operating Regulations that pertain to the PUP component are: (i) operating framework and eligibility criteria for properties to be developed; (ii) selection criteria for entities to design and carry out the development projects; and (iii) criteria for selection and rating of potential buyers and developers of properties suitable for building. The principal elements of the Operating Regulations pertaining to the MIDB component are: (i) the socioeconomic, technical, legal, development and environmental criteria for program eligibility; (ii) description of eligible projects and activities; (iii) project financing conditions; (iv) the program's operating framework; and (v) monitoring and control systems. **The entry into force of the Operating Regulations is a condition precedent to the first disbursement of program resources.** The project team has reviewed the draft Operating Regulations.

E. Financial administration

- 3.24 The UCS will be responsible for the preparation and submittal to the Bank of: (a) disbursement requests and justification of program-eligible expenditures; (b) semiannual activity reports on the revolving fund; (c) audited financial statements and other reports required by the Bank; and (d) a suitable system for filing supporting documentation for eligible expenditures so as to enable verification by Bank staff and external auditors; (e) maintenance of separate records on program operations, integrated with the MVCS system, so that the Bank and local counterpart resources can be managed in accordance with Bank accounting and financial requirements; (f) maintenance of separate, specific bank accounts to manage the funds from the Bank loan and the local counterpart; (g) transfer of resources to the entities in charge of program execution, as provided for in the Operating Regulations; and (h) procurement of goods and consulting services for execution of the institutional development component, including a contract administration system.
- 3.25 MIVIVIENDA and BanMat will be responsible for the preparation and submittal to the UCS of level-specific information equivalent to what the UCS is required to submit to the Bank, i.e., the information specified in the preceding paragraph. This should include in particular: (a) the selection and qualification procedures for applicants and beneficiaries of the various components, the procurement of goods and consulting services for execution of the institutional development component, including a contract administration system; (b) maintenance of separate, specific accounts for management of program resources; (c) appropriate record-keeping; (d) rendering of accounts to the UCS regarding the use of program resources; and (e) preparation and provision of financial information required by the UCS.
- 3.26 The use of all program resources will be subject to Bank rules and policies and to the procedures and guidelines stipulated in the Operating Regulations. All costs will be accounted for and expenses recognized in detail for each project financed under

the program, and in aggregate form for the overall program. Records will be kept separate for rendering of accounts and justification of funding advances. A table showing details of payments by period will be attached to requests for expense reimbursement and justification of advances.

- 3.27 Program disbursements may be processed ex post during semiannual external audits of the UCS, MIVIVIENDA and BanMat. In order for this procedure to be effective, at least the first three disbursements must be processed ex ante and the Country Office must assess the executing agency's management capacity to adopt the ex post procedure with the approval of the Representative. The foregoing notwithstanding, for each replenishment of the revolving fund, the UCS will indicate to the Bank the degree to which the executing entities have justified the advances received, within a period of three months. The revolving fund will comprise up to 5% of the loan total, and the executing agency will submit semiannual activity reports on the fund. Further details on the specific procedures for expenditure control can be found in the Operating Regulations.
- 3.28 The UCS will keep complete records and files for each operation that generates an expense. MIVIVIENDA and BanMat will also keep separate records and files for their respective parts of the program. All supporting documentation, such as the project evaluation, summary, receipts, reports, and supervision materials, will be filed to the Bank's satisfaction by the UCS, MIVIVIENDA and BanMat and will be made available to the Bank and the external auditors for review.

F. Procurement

- 3.29 The procurement of goods and services and the award of construction contracts under the program will be carried out according to standard Bank procedures, as set forth in Annexes B and C to the loan contract. International competitive bidding procedures will be followed to procure goods and services involving amounts equal to or above US\$250,000 equivalent and for works above US\$3 million. Works involving amounts below US\$3 million equivalent will be procured through local competitive bidding procedures acceptable to the Bank. Consulting services will be hired through an international open call for proposals when the estimated amount of the contract is equal to or above US\$200,000. The procurement plan is appended as Annex III-I.

G. Recognition of expenditures and advances

- 3.30 Prior to approval of the operation, the borrower will issue a call for subsidy awards, which will result in the financial commitment of program resources. In accordance with Operational Policy OP-504, the project team reviewed the Operating Regulations for the activities scheduled to begin in advance. The team recommends that up to US\$6 million in expenses incurred within 12 months prior to loan approval be recognized as part of the loan. Up to US\$1 million in expenses incurred

within 18 months prior to loan approval, including loan preparation costs, will be recognized as part of the local counterpart contribution. Expenditures will be recognized retroactively only if requirements substantially similar to those set forth in the loan contract have been met.

H. Execution period and disbursement schedule

- 3.31 The execution period for the program will be three years. Table III-6 presents the tentative disbursement schedule for loan proceeds and the local counterpart in accordance with program execution.

Table III-6 Tentative Disbursement Schedule					
	YEAR 1	YEAR 2	YEAR 3	TOTAL	%
IDB	17,588	20,561	21,851	60,000	80.0
Local counterpart	3,228	4,675	7,097	20,000	20.0
TOTAL	20,816	25,236	28,948	75,000	100.0
% per annum	27.8	33.6	38.6	100.0	

- 3.32 The borrower will submit evidence to the Bank's satisfaction that the counterpart resources have been allocated for the first year of operation, and that agreement has been reached on operation of the mechanism for transfer of loan proceeds to the executing agency.

I. Technical and operations monitoring, and evaluation

- 3.33 The Bank's Country Office will monitor the overall progress. The program includes resources for the VMVU to hire the services of a consulting firm to carry out technical and operations monitoring of the program, with the Bank's nonobjection, during the first six months of the execution period. The procedure for monitoring and evaluation will be based on the program benchmarks specified in the logical framework (Annex III-2), and the resulting information will be compiled in accordance with the responsibilities and procedures agreed upon with the Bank. The consultant's report prepared for the first annual meeting will contain measurements of the program's progress compared with the baseline data compiled during program preparation. The baseline is designed according to the program benchmarks and indicators established in the logical framework and those proposed in the Environmental and Social Management Plan (PMAS).
- 3.34 **Program startup meeting.** No later than three months after signature of the loan contract, the borrower, with Bank assistance, will hold a seminar-workshop to launch the program, to be coordinated with the Country Office. Participants will include the project team and the staff in charge of carrying out program activities,

including staff from the UCS, MIVIVIENDA and BanMat, and other entities that may then be participating in the program.

- 3.35 **Reports and annual meetings.** The executing agency will submit semiannual progress reports showing details for each component, as well as the level of attainment of each annual target established in the table of program benchmarks. The benchmarks will serve as the basis for the annual work plans. The annual meetings will be held within two months following the presentation of the second semiannual progress report each year. Annual reviews will include at least the following information: (a) review of program execution during the preceding year, including activities performed and disbursements made; (b) financial entities participating in the program; (c) specific program achievements compared with the targets in the tables of targets and benchmarks; (d) evaluation of methods of execution; (e) agreement on action plans for program activities in the following year, including agreements on any necessary corrective measures, potential changes in the rules, resource allocations by investment category, and new execution targets as a result of the review; and (f) review of progress on the triggers agreed upon for startup of the second phase.
- 3.36 **Evaluation of triggers.** Once 75% of the loan proceeds have been disbursed, the Government of Peru and the Bank will conduct an evaluation of the program outputs compared with the performance indicators agreed upon as triggers (Table I-4). This information will form the basis for processing the financing for the second phase of the operation.
- 3.37 **External auditing and operations monitoring.** During the execution period, the executing agency will submit a midterm report on operations; and at the close of the fiscal operation, it will submit a report of the program's financial statements duly audited by an independent auditing firm acceptable to the Bank. The firm will be hired for the project execution period. The auditing will be conducted on the basis of terms of reference previously approved by the Bank (document AF-400). Selection and hiring of the firm will follow the standard bidding procedures for auditing firms defined by the Bank (document AF-200). The total costs of auditing are included in the program cost and will be financed with proceeds from the Bank loan. The terms of reference for hiring the external auditors require Bank approval and will include visits to the executing entities and reviews by sampling. Semiannual auditing reports will include the auditor's opinion on the disbursement requests and their supporting documentation, pursuant to the terms of reference for ex post review of disbursements (document AF-500).
- 3.38 **Ex post evaluation.** An ex post evaluation will be conducted 12 months after completion of the second phase of the program, using proceeds from the loan. Program progress will be monitored annually by comparing performance during the first phase with the previously defined baseline data. The resulting measurements, combined with the semiannual reports and the trigger assessment, will yield a

complete evaluation at the end of the first phase of the program. The country will carry out the ex post evaluation and cover the attendant costs.

IV. FEASIBILITY AND RISKS

A. Feasibility

- 4.1 **Institutional feasibility.** Beginning with the creation of the MVCS in July 2002, the Peruvian housing sector launched a series of basic institutional reforms and thereby laid the foundation for a major institutional and policy shift in the housing sector. All sector-related activities and State entities were placed under the leadership and coordination of a single entity. This operation will continue efforts begun during the preparation phase to support the institutional reform process, through the financing of specific institutional and sector development activities, including the implementation and management of a strategic plan for the MVCS and the VMVU. **The plan will be delivered as a requirement for the first disbursement.**
- 4.2 Pursuant to these changes, the plan will define the organizational needs of the MVCS and thereby create a solid institutional framework that will lend sustainability to the new policies and actions spurred by the operation. The reform of the existing entities will provide infrastructure and staff, as well as a current budget for effective and efficient operations, primarily due to the functional changes and institutional overhauling generated by the new focus. Under the new policy, the private sector assumes responsibility for housing production and financing, and local governments take on responsibilities shared in complementary fashion with the national government. These two factors help reduce the number of national-level entities in the sector. The principal institutional adjustments will occur during the first phase of the program and will constitute triggers for the second phase (see Table I-4).
- 4.3 **Financial feasibility.** Short-term financial feasibility is ensured by the fact that the counterpart for the first year of program execution is included in the 2003 Budget Act. The US\$875,000 equivalent contributed by the local governments under the MIDB program and the US\$967,000 equivalent recovered through the sale of State-owned property developed with resources of the PUP program will be considered part of the local counterpart contribution. These amounts considerably reduce the amount drawn from budget sources.
- 4.4 The financial sustainability of the program will be determined by the government's political will to continue financing the programs launched with the support of this operation, and will be given concrete form in the 2006-2010 housing plan required to be presented as one of the triggers for phase II of the program (see Table I-4). The program is expected to receive additional support from stakeholders in the sector, whose position as part of civil society in general makes them guarantors of program continuity.

- 4.5 **Technical feasibility.** The technical feasibility of the program is directly related to its investment components, as described below.
- 4.6 The BFH component involves little technical complexity, owing to the fact that the construction work will not be carried out directly. The housing construction and improvement will be handled by registered professionals, who submit projects for approval and obtain the necessary licenses and permits from the local authorities in compliance with standards and codes in force.
- 4.7 Execution of the PUP component will be outsourced, and the development works will be carried out by the private sector through competitive bidding in accordance with the technical rules in force and the respective Bank regulations. The works under the MIDB component will be required to adhere to local and national regulations in force. The designs submitted by the municipal teams will be prepared with program resources by special consultants and subsequently reviewed by the technical specialists of the executing entity, with the support of the UCS. Under this component and the PUP, the interventions will be prioritized by a cost-efficiency factor measured by the relationship between project cost and the number of families benefited. In this first phase of the program, regarded as an initiation and learning phase, the project selection and rating criteria encourage programs of average technical complexity and act as a disincentive for technically ambitious projects that entail large investments. The complexity of the interventions is expected to be greater in phase II of the program, after it has progressed beyond the initial stage of learning and development of new working procedures.
- 4.8 Two important factors that impact the sustainability of projects generated by the PUP and MIDB components are considered in the selection of projects and program beneficiaries: (a) the requirement that projects presented to the executing agency include an analysis of the ability of beneficiary families to make the minimum payments associated with the improved lot, such as utilities and property tax; and (b) the participation of potential utilities in the various stages of project implementation so as to obtain their commitment to provide service.
- 4.9 **Socioeconomic feasibility.** Based on the experience of similar operations in other countries of the Region, it is to be expected that the direct and indirect benefits of the operation will be wide-ranging, to include not only families that receive a solution to their housing problem, but the State and the general population as well. The benefits to families range from enhanced quality of life, through: (a) improved living conditions; (b) reduced transportation time and greater accessibility to employment centers; (c) perception of greater security; (d) access to certain public utilities (e.g., water supply and sanitation); to benefits such as: (e) increased family wealth. The fiscal benefits include: (a) increased revenues for municipalities from land or property taxes based on higher land values; (b) savings for the municipios as a result of developments that were planned and built prior to occupancy; and (c) lower demand for fiscal resources per housing solution, owing to the use of

direct subsidies supplemented by contributions from the private sector and family savings.

- 4.10 The program will benefit society at large as a result of economic activity spurred by the strong internal production linkages in the construction industry. The number of jobs also rises owing to the industry's intensive use of unskilled labor. The boost in employment is beneficial to the lower-income population in particular, owing to its generally lower skill levels. Greater coverage of certain basic public utilities such as water and sewerage will help reduce pollution and lower the risk of the development and spread of certain epidemics. Improvements in family environment will create greater social cohesion, which discourages socially dysfunctional activities such as crime.
- 4.11 Many of the expected benefits are difficult to quantify, for two reasons. First, the benefits that may be derived from the program's implementation are also affected by external factors. Secondly, and equally important, it is not possible to obtain at reasonable cost all of the information needed for the estimates. Despite these limitations, however, some of the benefits mentioned can be quantified approximately.
- a. **Fewer fiscal resources per housing solution.** Under the new system of direct subsidy on demand, new housing production requires a lower fiscal contribution per housing solution provided. Under systems in which financing and production were provided directly by the government, 100% of the home value had to be covered. Under the new system, however, and depending on the method used, public resources account for a percentage of the total home value between 45% in the case of families whose income allows for a higher down payment and access to mortgage credit, to a maximum of 90% in the case of the low-income population without access to credit. Specifically, the program will create 9,100 new homes with a fiscal contribution of US\$33 million, whereas under the previous system, the construction of the same number of homes would have called for a fiscal contribution of US\$66 million (twice as higher).
 - b. **Appreciation of property values.** Both the MIDB and the PUP will raise property values. The comprehensive interventions of the MIDB will cause the improved settlements and adjoining areas to appreciate in value. According to ex post estimates for similar programs in the region, the increases would be approximately 90% and 20%, respectively. Specific estimates for this operation by the Peruvian National Board of Appraisal appear to indicate potentially very high appreciation of the improved land parcels. The Board of Appraisal used a benchmark sample of property values in marginal settlements located in areas with and without public utilities and was able to establish that the average land

price could increase as much as 26 times the original price,⁸ resulting in an increase in the value of the homes built there.⁹

- c. The development of rural land parcels through the PUP will likewise raise land values in those areas. According to available statistics, large-scale technical land improvement for low-income housing in Lima would double the return on investment.
- d. **Lower municipal spending as a result of planned urban development.** Under the PUP component, land improvements for low-income housing will lead to rational land development and occupancy. When no improved land is available, the alternative of squatting practiced by the low-income population on unserviced sites—usually in locations that are less environmentally suitable—results in the need for municipalities to upgrade these areas after occupancy, thereby increasing the cost of urban development. Although no data are available for Peru, the figures obtained from the case of METROVIVIENDA in Colombia may be considered indicative. According to those figures, the costs of sanitary sewerage and storm drainage in an occupied settlement with a haphazard road layout run 2.7 times greater on average than the costs of doing so as a planned initiative prior to settlement.¹⁰

B. Social and environmental feasibility

1. Targeting

- 4.12 The poverty line in Peru is approximately a family income of less than US\$270 per month.¹¹ Eligibility under the BFH component requires income below US\$280, which represents the average income for socioeconomic segment C. However, 100 percent of the BFH resources are allocated to the purchase, construction or improvement of homes with a maximum value of US\$8,000, corresponding mainly to families in segments D and E. Of these families, 70%, or 15,000 families comprising 80,000 persons, are required to have an income at or below the poverty line.¹²

⁸ Phase II of the Rio de Janeiro urban improvement program, “Favela Barrio” (BR-0250) and the neighborhood improvement program in Argentina (AR-0163).

⁹ Access to public utilities would raise home values by a factor of 17 in Lima, 25 in the northern coast region, 36 in central Sierra, and 27 in the Selva, according to the Peruvian National Board of Appraisal, 2002.

¹⁰ Metrovivienda data, Bogota, Colombia, 2000.

¹¹ Poverty line as defined by the INEI for the year 2001, which is lower than the Bank’s figure.

¹² According to the INEI’s National Household Survey for the fourth quarter of 2001, the average family size is 5.3.

- 4.13 Under the PUP component, in order to be eligible to compete for the purchase of land parcels improved under the program, projects are required to build 50% of the units as core housing with a value of US\$4,000 to US\$6,000 and target them exclusively to families with income below the poverty line. The beneficiaries would number at least 1,236 families, or 6,500 people.
- 4.14 According to the eligibility criteria established for the MIDB component, at least 80% of the families living in the participating settlements are required to have an income level below the poverty line. As a result, the program will have considerable social impact.
- 4.15 Of the total number of program beneficiaries (128,000 individuals), approximately 70% (95,000) belong to families below the poverty line. The operation therefore qualifies as a poverty-targeted investment (PTI) under the headcount criteria. The program will use a point system according to family income and makeup, among other considerations, to identify families living in poverty and assign priority to the neediest.
- 4.16 The actions needed to encourage greater involvement by municipios in the generation of low-cost housing, such as the relaxation of land development regulations, and in particular the development of urban land for low-income housing through the PUP program, will bring medium- and long-term benefits to low-income families by expanding their opportunities and potential for access to low-cost land and housing solutions.

2. Social inclusion

- 4.17 The operation seeks to benefit the low-income groups and will directly benefit and give priority to single-parent families. As a result, the primary beneficiaries of the BFH will be women heads of household. In addition, the home improvement subsidy will especially benefit single mothers living with a relative who will be able to build another room, and women who carry out productive activities at home. Through an outreach strategy that includes communication in languages used widely in Peru, such as Quechua and Aymara, program resources will be used to reduce the barriers to program access faced by indigenous and other ethnic groups. The conditions for obtaining program benefits are not expected to pose any limitation on participation by such groups. On the contrary, the MIDB component is targeted to the low-income groups living in substandard urban areas. The Operating Regulations for this component will include guidelines for the use of ethno-engineering in the event that work is carried out in settlements with a large concentration of indigenous groups.

3. Participation by civil society

- 4.18 The program presents good opportunities for participation by civil society, particularly in the BFH program subsidies for core housing purchase, home improvement and home building on self-owned property. Such activities call for participation by ETs such as NGOs, professionals and small companies that will organize and provide technical support to subsidy recipients. Civil society will also be able to participate in the PUP and MIDB components, in which NGOs will be required to play an active role through technical advisory services and social organization. The participatory process will enable the beneficiaries to become involved in social monitoring of the program works.

4. Environmental feasibility

- 4.19 In response to the request by the Committee on Environment and Social Impact (CESI), an environmental impact assessment (EIA) was carried out during the preparation phase of the operation. The results corroborate the experience of the Region with similar programs, inasmuch as the environmental and social impact is largely positive. The negative impact is limited, temporary and can be easily mitigated using current techniques and procedures, supported by environmental legislation. An Environmental and Social Management Plan (PMAS) was prepared and includes the guidelines for a preliminary resettlement plan to be implemented where necessary, prior to bidding on the respective works.
- 4.20 The potential positive impact of the operation includes: (a) social inclusion, (b) improved quality of life; and (c) job creation in the construction industry. The PUP component will upgrade State-owned land for the construction of low-income housing, which will benefit that population through access to basic services and environmentally sound urban planning from the time they take occupancy. The MIDB component will have a positive impact on the population in the form of enhanced quality of life in the program settlements through features such as sanitation (water supply and sewerage) and health. The MIDB component will also apply proceeds from the investment to fund environmental protection works such as the creation and recovery of green spaces, erosion control, soil stabilization and solid waste collection.
- 4.21 The studies conducted under the EIA found institutional weaknesses in the Office of the Environment of the MVCS and in the relationship between the central, regional, and local governments in regard to the authority for environmental management. Although Peru has a considerable legal framework for environmental protection (see EIA and PMAS), the regulations, policies and institutional framework for the sector have yet to be developed. Under decentralization, sector institutions are managed as a part of the new MVSC, which is still undergoing an overhauling and adjustment period to perform its new functions. The Offices of Urban Development and Housing need trained staff to serve as a point of contact

for the preparation of regulations administered by the Office of the Environment and for project evaluations that require an EIA. From this standpoint, the operation will play a positive role in completing the environmental legal framework through the financing of institutional strengthening activities for these offices. Work is being coordinated with the sanitation sector support program (PE-0142), an operation now in the preparation stage under the same ministry, to prepare an institutional, organizational and regulatory framework for the ministry as the entity responsible for environmental management in the housing, construction and sanitation sectors.

- 4.22 The potential adverse impact could occur upon initiation of the construction, home improvement and land development works, in the form of temporary disturbances such as transportation detours, noise and particulate emissions. These impacts are temporary, easily mitigated through the regulations stipulating the measures that builders must take during the construction phase, and limited due to the technical features of the construction. The MIDB component entails possible involuntary resettlement, which can be mitigated by selecting barrios with a lower percentage of population to be resettled and through resettlement plans, which will be a prerequisite for the allocation of resources under OP-710 guidelines.
- 4.23 The EIA focused on: (a) evaluation of the national and municipal environmental legislation and preparation of priority programs; (b) definition of the selection criteria for the land parcels to be developed under the PUP; (c) preparation of the preliminary resettlement plan; (d) identification of the environmental and social criteria that were incorporated into the preliminary Operating Regulations under the MIDB and PUP components; (e) definition of environmental and social management guidelines for application in program monitoring; and (f) preparation of the environmental and social specifications to be incorporated into contracts with the firms that will perform MIDB and PUP operations. The Operating Regulations also include the option of *in situ* installation of wastewater treatment systems such as septic tanks and anaerobic filters if the barrio portion involved in the program is not connected to the sewerage system.¹³
- 4.24 The PMAS includes the results of the studies mentioned in the preceding paragraph, the impact mitigation measures to be taken, and a plan for monitoring the program's environmental and social impact, with baseline data for execution schedules, responsibilities and costs.
- 4.25 The environmental and social feasibility of the operation will be ensured through the following activities: (a) a program outreach plan, which will cost US\$80,000; (b) preliminary resettlement plan, the cost of which will be added directly to the cost of the barrio improvement project; and (c) institutional strengthening of the

¹³ The provision of infrastructure for water supply and sanitation will adhere to: (a) public utilities policies OP-708 and OP-745; and (b) the policies and technical requirements for the sector in Peru.

Office of Urban Development and Housing, which will require approximately US\$40,000. Also included in this operation are activities related to the regulatory aspects of training in environmental issues, in the amount of US\$40,000, particularly an update of the Urban Management Plans to include environmental variables, and an environmental education program targeted at communities benefited by the MIDB as indicated in component I.

C. Benefits

- 4.26 The principal benefit of the program is the strengthening of the reform and modernization process in the Peruvian housing sector, which the government recently initiated with Bank assistance. The incentives for municipios to target investments in a coordinated, participatory manner through strategies such as the MIDB will be fundamentally beneficial, inasmuch as the practice will encourage them to operate more efficiently on an ongoing basis.
- 4.27 The operation is expected to benefit approximately 128,000 mainly low-income individuals, who will be able to purchase a home, improve their present living conditions or improve a substandard, unsanitary home environment. Specifics of the direct and indirect benefits of the operation are described in the feasibility sections of this chapter, of which the most notable are the socioeconomic and socioenvironmental benefits discussed in paragraphs 4.9 to 4.11 and 4.12 to 4.25, respectively.
- 4.28 The following benefits under each component bear special mention: (a) the BFH component will provide stimulus to expand the supply of mortgage credit and encourage the private sector to build low-cost housing, which in turn will boost the resources entering the construction sector and thereby return additional benefits (see paragraph 4.10); (b) the PUP component will demonstrate to the private sector that it is possible to produce low-cost housing under market conditions for the low-income population, and will create an opportunity to produce good-quality, environmentally sound settlements for those people who otherwise could obtain housing only through squatting or overcrowding in existing homes; and (c) the MIDB component will enable families who currently live in substandard conditions to access public utilities such as water, sanitation and drainage, and parks, squares and social services such as day care centers and community centers. The greatest benefit of this activity stems from its nature as a targeted, coordinated public investment to reduce social inequalities, which will help to prevent and reduce poverty-associated risks.

D. Risks

- 4.29 **Coordination of stakeholders and diversity of activities.** The program involves multiple activities and stakeholders from the public and private sectors, and the resulting complexity can lead to problems in program execution. The risk has been

minimized in several ways that hinge on the stakeholders and activities involved, as follows:

- a. Public sector activities will be coordinated under a single head, the Ministry of Housing, Construction and Sanitation, and supported by the program's UCS, for which the staff has been identified and partially appointed. The staff appointments are expected to be complete before program startup. A transition plan for each component has also been drawn up for consistency in execution. In regard to the financial and technical capacity of the municipios to participate in the program, the latter was designed to limit the supply against the potential demand from the municipios. Since the municipio contributions may come from their current investment budgets, support activities, particularly for training, have been included to help them participate.
- b. The coordination and participation of the private sector, which includes stakeholders from the financial and construction sectors and NGOs, will be achieved through ex ante stipulation of clear rules for participation and specific training programs for each type of participant.
- c. The concurrent nature of the institutional sector reform activities planned for component 1 and the provision of services or direct investment under components 2, 3 and 4 could create problems, especially for role definition under the program, institutional ability to achieve the proposed objectives, and the prioritization of activities. The program has attempted to minimize the situation by gradually phasing in the components, beginning with the BHF, which has already established MIVIVIENDA as the entity responsible for component preparation and execution, based on its qualifications for that function.

4.30 **Reconciliation of programs with existing activities.** One of the main objectives of the operation is to eliminate the barriers created by the existing housing programs. The implementation of such changes calls for political will and major decisions, which were made during the preparation phase, reflected in the preliminary transition plan, and are to be carried out during the implementation period. One critical consideration pertains to the changes that MIVIVIENDA and BanMat are required to make. For procedural consistency, guidelines have been established for the required institutional changes, which have been mutually agreed upon and included in the above-mentioned plan. Close and continuous monitoring of the plan implementation will be needed.

4.31 **Direct participation by the VMVU in execution of the PUP component.** The selection of land, execution of development works and sale of the improved land parcels are activities performed directly by the government and therefore constitute a risk for the program. The program design minimized the risk through the definition of technical criteria for development property selection that were identified earlier in the program's Operating Regulations and were disclosed to the

public. Property selection will be carried out by the program's technical committee and an outside supervisor chosen from a shortlist submitted to the Bank, or by the Deputy Minister of Housing and Urban Development (see paragraph 0). A competitive bidding process in accordance with Bank procedures will be used to execute and monitor the works and to outsource the award and sale of the land.

PERU
HOUSING SECTOR SUPPORT PROGRAM—PHASE I
(PE-0218)

TENTATIVE PROCUREMENT PLAN

MAIN ITEMS TO BE PROCURED	FINANCING	METHOD	PREQUAL.	DATE
1. Institutional development Various consulting services: a. Institutional strengthening of: MVCS: US\$105,000 (3 calls for proposals) VMVU: US\$130,000 (3 calls for proposals) Reorganization of BanMat: US\$354,000 (3 calls for proposals) b. Housing sector support: US\$250,000 (4 calls for proposals) Information system: US\$886,000 c. Strengthening of housing financing: US\$170,000 (4 calls for proposals)	IDB 100% IDB 90% IDB 80% IDB 85% IDB 80% IDB 80%	LCP LCP LCP LCP ICP LCP	Yes Yes Yes Yes Yes Yes	I/2003 I/2003 II/2003 II/2004 I/2003 II/2004
2. Subsidies for demand, Family Housing Subsidy: aggregate amount of up to US\$50.8 million The program will not finance direct civil works.	N/A	N/A	N/A	N/A
3. Urban Plot Development (PUP): aggregate amount of up to US\$5.49 million a. Contract for program administration: US\$150,000 b. Infrastructure works Includes feasibility studies and designs - One developed plot for a total of US\$1.8 million - Four developed plots for a total of US\$3.56 million	IDB 100% IDB 80% IDB 80%	ICB LCB LCB	Yes Yes Yes	II/2003 I/2004 II/2005
4. Comprehensive Barrio Improvement: aggregate amount of US\$7.87 million Improvement works including: training, feasibility studies and designs - 10 projects totaling US\$2.67 million - 15 projects totaling US\$4 million	IDB 85% IDB 85%	LCB LCB	No No	I/2004 I/2005

LCP = Local call for proposals

ICP = International call for proposals

ICB = International competitive bidding

LCB = Local competitive bidding

PC = Price comparison

Date = Refers to which half of which year the call for bids is expected to be held

N/A = Not applicable

LOGICAL FRAMEWORK
HOUSING SECTOR SUPPORT PROGRAM – PHASE I (PE-0218)
Executing agency: MVCS

	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL (impact)			
To help reform and organize the Peruvian housing sector and provide long-term consolidation through incentives to make housing accessible to the various socioeconomic segments of the population.	<ul style="list-style-type: none"> ✓ <i>G1. Formal dwellings built per year</i> increase from an average of 11,862 in 2002 to 21,289 in 2007 and 30,000 in 2011. ✓ <i>G2. Investment in housing</i> grows from 2.9% of GDP in 2002 to 3.3% of GDP in 2007 and 3.6% of GDP in 2011. ✓ <i>G3. Housing accessibility (Housing minimum value / average family income)</i> decreases from 5.5 in 2002 to 4.5 in 2007 and 3.9 in 2011. 	<p>Data from Cámara Peruana de la Construcción (CAPECO) (G1)</p> <p>Data from Instituto Cuanto S.A. (G1)</p> <p>INEI: National accounts (G1,G2)</p> <p><i>Apoyo, Opinión y Mercado</i>: income surveys (G3)</p> <p>Ex post evaluation (G1, G2, G3)</p>	<p>Sector priority and national policies are maintained.</p> <p>GDP grows 4% - 4.5% per year.</p> <p>Construction sector averages 7.5% annual growth.</p>
PURPOSE (outcomes)			
To target public resources for housing production to the low-income population segments.	<ul style="list-style-type: none"> ✓ <i>P1. Formal dwellings built in one year for socioeconomic segments C and D under the Bank program</i> increase from 0 in 2002 to 4,260 in 2007 and 10,000 in 2011. ✓ <i>P2. Beneficiaries of the Bank program</i>: at least 70% of the beneficiaries are below the poverty line. ✓ <i>P3. Public spending on low-income housing that benefits socioeconomic segments C, D and E</i> grows from 35% of public spending on housing in 2002 to 100% in 2007. ✓ <i>P4. Private investment in low-income housing that benefits socioeconomic segments C, D and E</i> is US\$23 million per year in 2003-2005. 	<p>Program Execution Unit (P1, P2, P3, P4):</p> <ul style="list-style-type: none"> - Progress report - Outside consultants - Profiles submitted by beneficiaries for admission into the program <p>INEI: poverty line (P2), national accounts (P4)</p> <p><i>Apoyo, Opinión y Mercado</i>: income surveys (P1, P3, P4)</p> <p>MEF-SIAF (P3)</p>	<p>National housing policies, based on the State as facilitator, and priority spending for the most vulnerable population segments are maintained.</p> <p>The State does not produce housing or grant loans directly.</p> <p>There are no drastic fiscal adjustments.</p>

	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS (outputs/inputs)			
1. Institutional and sector strengthening	<ul style="list-style-type: none"> ✓ The strategic plan for the housing and urban development subsector is drawn up by 2004. ✓ Banco de Materiales reorganization plan is designed and implemented as of 2004. ✓ Housing information system is implemented in the MVCS as of 2005. ✓ New technical and administrative regulations for land and building use are adopted as of 2004. ✓ Mortgage loan approvals for disadvantaged segments (C, D and E) increase from 0 in 2002 to 5,500 in 2007 and 8,500 in 2011. 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Progress reports - Midterm evaluations 	<p>The political commitment to modernize the MVCS is maintained.</p> <p>There is no drastic turnover of MVCS staff.</p>
2. Family housing subsidy (BFH)	<ul style="list-style-type: none"> ✓ At least 1,700 core housing units are purchased with BFH by 2005. ✓ At least 7,400 basic housing units are purchased with BFH by 2005. ✓ At least 1,840 homes with land are purchased with BFH by 2005. ✓ At least 10,730 homes are improved with BFH by 2005. ✓ 60% of BFH beneficiaries are below the poverty line. 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program - Outside consultants' reports 	<p>The private sector generates a new supply of low-income housing.</p> <p>IFIs grant credit from own funds to families with income below PNS 1,000 per month.</p> <p>Community organizations take part in proposal of applicants to purchase homes without credit.</p>
3. Primary urban production (PUP)	<ul style="list-style-type: none"> ✓ Some 2,270 land parcels are developed for low-cost housing in high-quality housing developments (road system; public spaces; community facilities) by 2005. ✓ Some 30 hectares are developed for production of low-income housing outside metropolitan Lima by 2005. ✓ Approximately 12,000 people benefit from the PUP program by 2005. 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program - Outside consultants' reports - Supervisory visits and periodic evaluations 	<p>Private investors take part in bidding for the macrolots.</p>
4. Comprehensive barrio improvement (MIDB)	<ul style="list-style-type: none"> ✓ Improvements (road accessibility, provision of domestic utilities) have been made in at least 20 barrios by 2005. ✓ Councils with community input are operating in 100% of 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program 	<p>The municipios participate and adopt the comprehensive targeted investment system.</p>

	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>barrios improved under the program.</p> <p>✓ Some 13,250 people benefit from the MIDB program, particularly at socioeconomic level E, by 2005.</p>	<ul style="list-style-type: none"> - Outside consultants' reports - Supervisory visits and periodic evaluations 	<p>The community participates in project identification and design.</p> <p>Banco de Materiales is operating efficiently.</p>
ACTIVITIES (inputs)			
1. Institutional strengthening	<ul style="list-style-type: none"> ✓ Housing component in the VMVU sector plans has been developed. ✓ Banco de Materiales reorganization plan is being implemented. ✓ Design, development and operation of the housing information system are under way. ✓ Technical and administrative regulations for land and building use have been reviewed. ✓ Recommendations have been drawn up to strengthen the primary market and stimulate the secondary mortgage market. 	<p>Program Executing Unit:</p> <ul style="list-style-type: none"> - Progress reports - Midterm evaluations 	<p>The political commitment to modernize the MVCS is maintained.</p> <p>There is no drastic turnover in MVCS staff.</p>
2. Family housing subsidy	<ul style="list-style-type: none"> ✓ Financing for 9,100 subsidies at US\$3,600 each for new homes nationwide is awarded to families with incomes below US\$280 per month. Year I = 3,000 subsidies; year II = 3,000 subsidies; and year III = 3,100 subsidies. ✓ Financing for 12,570 subsidies for home improvement nationwide is awarded to families with incomes below US\$280 per month. Year I = 3,014 subsidies; year II = 4,600 subsidies; and year III = 4,956 subsidies. 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program - Outside consultants' reports 	<p>The private sector generates a new supply of low-income housing.</p> <p>IFIs grant credit from own funds to families with incomes below US\$1,000 per month.</p> <p>Community organizations take part in proposal of applicants to purchase homes without credit.</p>
3. Primary urban production	<ul style="list-style-type: none"> ✓ US\$5.49 million is invested in the development of three State-owned residential land parcels outside metropolitan Lima. 	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program - Outside consultants' reports - Supervisory visits and periodic evaluations 	<p>Private investors take part in bidding for the macrolots.</p>

	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
4. Comprehensive barrio improvement	✓ Financing for 2,500 subsidies averaging US\$2,000 each for comprehensive barrio improvement, nationwide. Year II = 1,000 subsidies; and year III = 1,500 subsidies.	<p>Program Execution Unit:</p> <ul style="list-style-type: none"> - Profiles submitted by beneficiaries for admission into the program - Outside consultants' reports - Supervisory visits and periodic evaluations 	<p>The municipios participate in and adopt the comprehensive targeted investment system.</p> <p>The community participates in project identification and design.</p> <p>Banco de Materiales is operating efficiently.</p>